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(i)

This is the final work of a Master's degree, M.Litt.

The degree is a result of a continuous full time and almost exclusive work during two academic sessions at the management department of Glasgow Business School, University of Glasgow.

This was a work supervised by Prof. Luis Moutinho during the first academic year and by Mr. Douglas Briggs during the second.

Glasgow, 8th of July 1990

Eduardo Correia

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The banking and financial  
strategic dynamic  
- focusing in Portugal

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1

1 - INTRODUCTION

The subject of the following work is related to banking and financial markets strategies.

The following study was developed with the Portuguese financial system and environment in mind. The main objective of the study is a multidimensional analysis, observation and comment on the Portuguese banking and financial systems and on the Portuguese banks.

Four different approaches to the subject were adopted to make this work as complete as possible.

1- Identification, study and analysis of the most important factors in recent decades concerning the evolution and change that has been taking place in the most developed financial centres and institutions of the world (ie London, New York, Tokyo and Hong Kong).

These two chapters (2 and 3) are support and background for the final analysis in the Portuguese system.

2- A brief review of the Portuguese economy in recent years with special attention being given to the European Community entry. (Chapter 4)

3- Survey of the Portuguese banking and financial system.

(Chapter 5)

4- Study, analysis and interpretation of three different questionnaires about the subject and answered by individual and corporate bank customers. (Chapters 6 and 7)

The last chapter of this dissertation (chapter 8), will contain the final conclusions and comments. Directions and suggestions for further research studies in this area will be given.

The idea of researching banking and bringing the focus of attention to the Portuguese banking and financial system, is based on three important factors:

The first, is a personal recognition of the importance of this industry, given its status and nature, in the role of economic performance.

If the American economy and the American banks during the 1960's and 1970's are observed, or the Japanese economy and banks during the late 1980's, it is seen that the stronger economies always coincide with the nationality of the bigger

and the most important banks in the world, in value of assets and turn over. The argument is simply that banks and the banking system are deeply involved with economic performance.

The solidity of the banking system depends on the solidity and stability of the economies and vice versa.

A good performance from the banking and financial institutions will have a positive and important influence in the economy. At the same time, economic growth will naturally have a positive influence on the performance of the banking and financial systems; conversely recession and inflation would affect this performance negatively. This is a phenomenon observed by the modern economists since the 1920's recession.

The second factor is related to the evolution of the industry. The last two decades have seen the development of a global banking and financial market, in which local savings generated in one country can be invested, either directly or through intermediation, in another country, insured or not against exchange and interest fluctuations. If the above is securitised can be traded and arbitrated in a number of international market places 24 hours per day, with investors having

instant quotations and execution access.

This spectacular integration of the domestic and international capital markets around the world and the clear trend towards the development of a global capital market has been largely facilitated by the process of deregulation and liberalization that has been gradually taking place in the most industrialised countries and by the developments in technology which have served to increase and improve communications and reduce costs of transactions, making, from the customers point of view, financial services more attractive and affordable. These developments have had a strong effect on the banks' and other financial institutions strategic decisions and are going to be identified as environmental factors.

Attention is going to be given to the banks' strategic responses to such stimulus and factors: the banking and financial strategic dynamic.

Last, but not least, the third factor is related to the present conditions of the Portuguese economy.

The relative modesty of the national economy when compared with its Community partners, the expressions of politics and the recent good economic performance are evidence of a

desire to encourage economic growth. However, external factors such as the Portuguese membership of European Community, the growing level of foreign investment and the fall in petroleum prices have considerably contributed to the recent economic success.

This new 'EEC' era, brings new challenges and threats to Portugal. For the Portuguese entrepreneurs, the opportunity exists for new pan-European strategies to emerge, namely and particularly in banking and financial markets.

Banks and financial institutions will have an essential role to play in the development of the economy and in the development of Portuguese corporations, however, before that can be accomplished the whole banking and financial systems themselves and a considerable number of the institutions operating, need to rethink their positions and organisation.

2 - EVOLUTIONARY CHARACTERISTICS OF THE BANKING WORLD



CHAPTER CONTENTS

- 2.01 - INTRODUCTION
- 2.02 - METHODOLOGY
- 2.1 - ACTIVITIES AND FUNCTIONS OF BANKS
- 2.2 - CAUSES FOR RECENT STRATEGIC MOVES
- 2.3 - DEREGULATION
- 2.4 - INTERMEDIATION
- 2.5 - DESINTERMEDIATION
- 2.6 - SECURITISATION
- 2.7 - TECHNOLOGY
- 2.8 - INNOVATION
- 2.9 - DELIVERY SYSTEMS
- 2.10 - PRESENT AND FUTURE STRATEGIES
- 2.11 - FACTORS OF SUCCESS

## 2.01 - CHAPTER INTRODUCTION

This chapter is a summary of factors, their compilation and description that in the context of this work and with some information limitations, were found as among the most important in order to understand the banking strategic dynamic in the last two decades.

This chapter is concerned with some of the most important international financial sources of change, this reason is why it is with the most important and innovative financial institutions and financial centres that this analysis takes place. The behaviour of the leaders of decision and innovation, in the banking world are to be reviewed and explained.

Deregulation, the international debt problem, market changes and changes in technology are some of the most important sources of change in the banking environment. These factors must be seen both in connection with each other and separately. Both views are used in this chapter, in order better to explain these phenomena.

## 2.02 - CHAPTER ELABORATION METHODOLOGY

This chapter is a literature survey based on banking books, banking legislation, academic banking articles, specialised banking magazines and bank reports.

It is also based on Dr John Holland's classes of international banking and financial markets at Glasgow University, and on several conversations with bank directors and managers, namely with Barclays Bank, Bank of Scotland, Clydesdale Bank, Citibank, Banco Espirito Santo e Comercial de Lisboa, Banco Internacional de Credito, Banco Portugues do Atlantico and Banco Pinto e Sotto Mayor.

In the former, a week was spent at the central foreign exchange dealing room in Lisbon.

## 2.1 ACTIVITIES AND FUNCTIONS OF BANKS

Banks are institutions that act as financial intermediaries in financial markets, accepting deposits and making loans. They provide a channel for linking those who want to save with those who want to invest; this function is very important in the performance of the economy because those who save are frequently not the same people who have profitable investment opportunities available. Thus, financial markets allow funds to move from those without productive investment opportunities to those who have such opportunities; this is called the intermediation process (see 2.4) and is the banker's most important role in society. In this process, banks need to recognise which are the profitable projects, and be able to avoid those which have a high default risk. Past mistakes, like the third world debt, should be lessons. It is very important for economic development that resources are employed with economic, financial and social sense. The banking system has a crucial mission in this context.

In this perspective bank activities can be divided into:

- 1- Commercial banking
- 2- Investment banking

Commercial banking serves liquidity surplus units (those individuals and organisations with liquidity in excess) by offering a wide variety of deposit accounts, and transferring deposited funds to liquidity deficit units by providing direct loans or purchasing securities.

The deposit and lending services are utilized by households, business and governments. The essential performances of commercial banking are that safeguards deposits, grants advances to those wishing to borrow for purposes such as mortgage finance, education, automobile purchase, home improvements and credit finance for durable goods purchase.

Commercial banks also provide an important money transmission service.

Traditionally a bank has two main aims:

1- To make a profit providing financial services

while at the same time it must

2- Maintain sufficient liquidity (reserves) to ensure that depositors money requests can be met.

Toft, (1986), argued that the vital task of reconciling liquidity with profitability is performed by ensuring that the structure of its assets meets these last two requirements.

Traditionally the banks pay interest rates on deposits and do not charge customers for safeguarding their deposits. Banks could have done this in the 1970's for 'Petrodollars'. Instead of finding projects and borrowers to place these huge amount of funds and accept the associated risks, banks could have charged these depositors for safeguarding funds and tell them to look for profitable projects independently or share the risk of the investment. Some of the third world debt problem would have been avoided or shared with depositors if the banks had acted in this way.

The services that commercial banks provide can thus be classified as:

- 1- Credit services
- 2- Non-credit services (foreign exchange, money transfers, etc)
- 3- Mixed

## INVESTMENT BANKS

Investment banks assist corporations in the initial sale of securities in the primary market, by ways of subscription, distribution and management of financial assets. (Jean-Yves Haberer, 1986)

Investment banks advise corporations on financing instruments, for example in bonds or stock issues; in the case of bonds they help the corporation to decide the maturity and interest payments and all the other related factors.

When a corporation issues financial instruments it sells them directly to the public or to underwriters - generally investment banks that guarantee the corporation a price on the securities and then sell them to the public.

'If the issue is large, several Investment banking firms form a syndicate to underwrite the issue jointly - thus limiting the risk that any one investment Bank must take.'  
(Mishkin. F.S, 1986)

## 2.2 CAUSES FOR RECENT STRATEGIC MOVES

'In terms of structure, practices and technology, banking apparently remained largely unchanged until the 1960's.'

(Lewis and Davis)

Within recent years a wave of innovations has brought a radical and profound transformation in the banking and financial environment. 'Globalisation' is the term commonly used to describe this development which has taken place particularly in the USA and in the UK. However this word masks a complex reality. In literal terms it refers to:

- 1- The spread of financial markets on a world wide scale.  
(Technological development)
- 2- The new and frequent entrance of non-banking institutions in financial activities (Deregulation)
- 3- The substantial increase in the number and types of instruments and services in financial markets  
(Financial innovation)

'Globalisation' also refers to the nature of relations between lenders and borrowers which have become much closer and varied with the expansion of off-balance-sheet bank business.



Complicated transactions such as dealing in futures and options have been facilitated by:

- 1- Development of computerisation and telecommunication that enable banks to arbitrage in several markets and also turned the internationalisation and integration of different financial markets possible.
- 2- Liberalisation and deregulation in particular the lifting of exchange rate controls, the abolition of interest-rate ceilings on certain deposits and the permission granted to non-banking institutions to accept deposits, known as the desintermediation process, have considerably increased competition.

Broadly speaking, deregulation has been directed toward opening up opportunities for:

- 1)- new geographical markets
- 2)- new products
- 3)- new pricing techniques
- 4)- new competitors

Another very important cause, referred by OECD - Paris 1988, for this recent change in the banking industry was the growing saturation of the traditional financial service markets beginning in the late 1970's. Until then, financial firms expanded their business mainly by adding new customers to their list (period of quantitative growth).

There were in the 1960's and 70's few services available for the average account holder, and as markets became saturated, financial firms everywhere were forced to develop new growth strategies emphasizing expansion through the addition of new products and services. The interaction of these forces has led to an explosion in the number of new instruments that perform the functions of transferring risk and enhancing liquidity; functions which until recently were exclusively the bank's business, can now be bought by private individuals and corporate investors.

Corrigan (1986) defends the view that these recent changes resulted in an extension of information on financial markets through the issuance of Euro-papers by firms that up to a few years ago obtained their loans exclusively within the anonymous conference rooms of commercial banks.

Heavy investment in information technology, dealing capacity and communications networks to build global trading capability has, thus, become a prerequisite for strategic success for the organisations determined to participate in the new global market. The impact of the investment needs required to build brokerage and investment banking capability and technological superiority has meant that only those organisations of sufficient size to afford such commitments emerged as the global players.

For most institutions in the financial business the global game is not viable and they must adjust to niche strategic positions where they can achieve and sustain competitive advantage.

Channon, (1988), believes that for the major institutions the new strategy is increasingly to provide a service to large borrowers by arranging loans and then placing them with other banks, rather than placing them in a full open secondary market. While syndication is not new, the active efforts on the part of the large commercial banks not to add to their own asset base, and even to reduce it, is a new strategy, which was originated in the mid 1980's. In order to participate in these new securities markets, major commercial banks, where regulation has permitted, have added securities-dealing capacity, in order to to become universal banks.

For their part brokerage houses, investment banks and some non-banks have attacked the traditional markets held by the commercial banks by innovating new financial instruments and by globalising their own operational activities.

Channon (1988) also refers the following:

The New York Federal Reserve (NYFR), that performs the functions of a central bank, noted that many non-financial institutions had begun to offer one or more of the following facilities:

- 1- providing foreign exchange services to portfolio investors and borrowers in the USA and abroad. Package deals, which accommodated foreign exchange needs of customers, with fully hedged commercial paper - this was available to foreign borrowers wishing to raise funds in the USA but avoiding foreign exchange risk.
- 2- meet corporate foreign exchange needs related to mergers and acquisitions of foreign assets.
- 3- use long term foreign currency swaps to bring together borrowers and investors with different currency interests.
- 4- arbitraging to profit from price discrepancies occurring between the Interbank market and the International money market where foreign futures currency are traded.

The foreign exchange market consists of three kinds of activities:

- 1- Spot - settled within two days
- 2- Outright - forward deals due for settlement at a future date
- 3- Swap

The growth of the foreign exchange market (table 2.1) which remains dominated by the leading multinational banks was mostly due to:

- 1- The formidable world-wide integration of advanced economies through trade
- 2- The growing number of electronic dealing terminals in the banks' foreign exchange rooms.

In 1980, Reuters had installed 20,000 terminals, by 1985 this had risen to 53,000. Telerate terminal installations had grown from 3,000 to 14,000 over the same period of time, while the number of NASDAQ (National Association of Securities Dealers Automated Quotations) terminals had grown to 125,000. (Euromoney, October 1985)

The largest dealing room in the world is Merrill Lynch's trading centre in New York with 1,245 positions.

table 2.1

---

MULTINATIONAL BANK REVENUES FROM FOREIGN EXCHANGE  
OPERATIONS (\$ MILLION) (for selected Banks)

---

	1984	1985	1986
Citicorp	258	358	412
Chase Manhattan	119	173	222
J.P Morgan	30	173	230
Chemical Bank	61	102	103
Barclays (*)	84	113	123
National Westminster (*)	70	44	110

---

source: Channon, 1988

(\*) Millions of pounds

## MULTINATIONAL BANKING

Multinational banks are considered to be the real pioneers of all these transformations and evolutions. The development of multinational banks with a global perspective is a phenomenon dating back to the late 1960's, with its initiation in USA. When their corporate clients moved overseas, the large American corporate banks, led in particular by Citicorp moved to escape the constraints of domestic USA banking law and expanded abroad, answering the increasing need of a new range of banking services which linked together the corporate customers' operations as they gradually diversified throughout the world. During the mid 1980's, with the introduction of electronic banking, the networks had begun to be linked by global integrated communications systems. This factor led to a rapid acceleration in information and money transfers, allowing banks and corporations to improve significantly their cash management capability on a real-time basis.

This was the start of the acceleration in the globalisation of financial markets. Technology, particularly in the areas of systems and telecommunications, has made this possible-creating a 24 hour global securities market.

The American banks brought to Europe a persuasive attitude

on selling banking services. Traditionally in Europe, bankers had been trained not to be aggressive in selling. Customers were expected to approach the Bank to obtain financial services and especially loans. Credit assessment tended to be undertaken on a 'gone' basis, namely the banks assessed their risks in terms of what would happen if a client were forced to go into liquidation. The American banks' competitive evaluation on a continuing business basis related to cash flow and to the projected capability of a client to repay the capital and interest was revolutionary in Europe. By comparison with their European competitors, the American banks were seen as aggressive, innovative and specialist financial service providers to the corporate market. The British banks had remained weak in investment management and merchant banking, they had not held substantial equity positions on their customers, and they did not provide their corporate customers with the same kind of attention and business understanding. Channon refers this fact as perhaps one of the major criticisms that corporations have levelled against British banks and why some have tended to be more favourable to US commercial banks. Citibank, for example, when operating its world corporation group structure, appointed a global account manager to lead a team of 20\30 officers around the world to service a large multinational.



In the UK, corporate lending by the commercial banks has tended to focus on the short term, although competition from external multinational financial institutions has forced the banks to devote an increasing share of assets to medium-term lending. Channon, (1988), reinforces the view that the banking business was a few steps behind in Europe. He observed that the banks were organized primarily by geography rather than by customer and had no knowledge of profitability by service or by customer, but only by branch. The rapid development of the American banks during the 1970's, coupled with the development of technology, especially for global funds transfer and later for all forms of global trading meant that by the late 1980's global as distinct from international, or even multinational banking services had clearly developed. More over, these services were different from traditional lending or transaction based services and embraced new markets such as swaps, options and futures as well as some integration of the debt and equity markets.

With multinational banking arrived a global capital market, a global foreign exchange market and a growing integration of the main national economies of the world.

## CONSORTIUM BANKS IN EUROPE

The consortium banks were seen by some of the major European banks during the 1970's as a good strategic option to face the aggressive American competitors. There were a number of reasons why consortium banks proved to be a logical and good strategic option:

These consortia served to complement the member banks' own activities as well as to provide services for multinational corporations that individual domestic banks on their own, given their capacity restriction, could not. This was also a very good opportunity for small banks to enter into the international markets.

The consortium banks allowed the different participant banks to generate specific new skills, such as specialization in particular geographic or product market areas.

These early banking clubs, became just a transitory and unstable stage in the development of multinational banking.

Channon (1988) indicates a number of apparent reasons for the failure of the consortium banks strategy:

The rapid growth of the global banking market led many of the participants to rethink their initial defensive posture and to pursue their own policies of international network

development.

In some cases, competition with partners started, mostly due to the unclear set up of objectives when established and no in-built mechanisms to resolve potential conflicts between partners. At last and as a consequence of these factors these consortium banks faced serious managerial problems that led to the end of these organizations. It is observed that in the mid 1980's most of the consortium banks formed in early and mid 1970's, had disappeared.

Channon,(1988), regards consortium banks as an important step in the development of many European multinational banks, and observed the fact that by the mid 1980's all the main European banks had developed their international banking activities.

Profits from overseas operations had become a substantial component of banks total profits.

### 2.3 DEREGULATION

Just as the regulatory restructuring of the 1930's, in the most developed economies, was driven by the international depression, so too the current wave of regulatory restructuring, again in the most developed economies ie. European Community and USA, is a response to inflation, new technological capabilities and to the declining intensity of regulations. Governments world-wide have embarked on a course of financial liberalisation, opening-up the domestic markets to competition from foreign banks and extending the range of activities permitted to banks and allowing other non-bank financial institutions to access the banking markets.

'Deregulation had tended to lead to the introduction of low-cost service providers which had often stimulated a much greater level of price competition.' (Channon 1988)

Channon reports that in the USA the federal authorities imposed a series of regulations turning most firms operating within the financial services were made subject to product, market and geographic regulatory constraints.

These regulations foresaw:

- 1)- the restriction of bank branching across state lines for the purposes of taking deposits (but not for making loans)
- 2)- the setting of maximum level of interest to be paid on consumer deposits (but not on commercial deposits in the capital market)
- 3)- the prevention of commercial banks from dealing in securities underwriting and the issuing of mutual funds as part of trust or investment management activities
- 4)- stopping the banks from entering the insurance industry
- 5)- preventing the banks from entering in commercial property development.

With deregulation most competitive institutions moved to adopt one or more of a number of potentially viable strategies. Some institutions have adopted different strategic positions in different international markets and the strategies identified are therefore not necessarily mutually exclusive. Those left in the original segment serving a broad market have tended to operate a geographic niche strategy as community firms. Such organisations were rarely attacked by larger competitors because of the cost of providing an equivalent level of service for a small geographic market.

That was usually not considered economic, although in the long term the strategy can be vulnerable. Moreover such institutions might actually be short-term customers for services provided by larger specialists, especially for those services utilizing advanced technology which are highly volume-dependent, given the high sums of structural costs. These geographic niche specialists can command high levels of customer loyalty based on special local understanding and a high level of service for which many customers are prepared to pay a slight premium.

Also included in this wave of deregulation, the 1980's had seen successive governments adopt an aggressive policy of denationalisation and privatisation (UK, Spain, Italy and more recently the case of Portugal).

It is commonly believed that this fact stimulates productivity and also spreads share ownership within society as most nationalised enterprises have been sold at a discount.

In relation to this subject it is believed that for a safer strategy the banker's planners must believe that government's regulators will not disappear, that inflation might or might not be eliminated and technological innovations will not stop. Most of all, it is important to concentrate on unknown phenomena that will appear.

As Southeimer and Thoan (1986) concluded, regulatory practices are moving away from protecting banks from potential rivals and will continue to move towards more intervention in the internal management of banks and their new competitors.

## 2.4 INTERMEDIATION

The need for financial intermediation arises because some economic units have an excess of income over expenditure (financial surplus), whilst others have a deficit; in this case an excess of expenditure over income.

In the process of intermediation, commercial banks and to a lesser extent, other financial firms facilitate payment transactions. Traditionally intermediation meant the process of bringing together savers and borrowers, converting savings into loans or investments.

In the last few years, however, there has been a massive reconfiguration of the process of the financial services industry around the world. Today taking deposits and lending by banks are increasingly being supplemented by different means of intermediation, these include the issuance of securities and other forms of marketable commercial paper representing a corporate entity's assets, whether they be used for financing real estate, ships or motion pictures.



An example of these innovations in the intermediation process was the securitisation of a well-known piece of New York real estate, the Rockefeller Centre. Here a world famous piece of real estate was turned into liquid asset by its owners, who, instead of borrowing from a bank or selling the real estate directly to a single buyer, offered securities in the form of REIT's (real estate investment trusts) to the public.

Already in 1980 Freeman affirmed that the emerging major players in this process in addition to the traditional leading commercial banks and insurance companies, were and would be well-capitalised investment banks and brokerage houses (in USA - Merrill Lynch and Salomon Brothers), astute packagers or mutual funds. Real estate investments also have become major players in the new game of intermediation. Whether they are based in London, New York, Geneva, Frankfurt or Tokyo these institutions are not only coming out with innovative, technology-based products, but also the ability to market them globally. This phenomenon is known as the desintermediation process.

## 2.5 DESINTERMEDIATION

Today a commercial bank manager can look out through his doors and see non-traditional rivals offering a wide extension of financial services. His once protected market segment has been invaded. The obvious task, for these managers, is to identify the market position or niches which they can dominate and defend against accentuated competition. These new aggressive competitors offer insurance, securities brokerage, credit of all kinds, insured deposits and professional investment management, all explicitly priced, efficiently delivered and innovatively conceived. Other new competitors equally anxious to serve the market are emerging but associated with non-financial commercial enterprises. These include General Motors acceptance corporation and Renault Gest.

'In the USA, for example, five of the eleven largest firms in terms of market capitalisation are actively developing a financial service business. Not one of these firms is considered to be a bank or is regulated as a bank holding company but each of these firms has a market capitalisation far larger than Citicorp which is the only bank holding company among the fifty largest firms in terms of market capitalisation.' (Angermueller)

Banks, in other words, began to lose their unique image of safety, soundness, efficiency and fairness, thus losing deposits to building societies which offered transaction accounts paying higher interest and having longer opening hours. Banks also lost important market share to non-commercial banks, operated by private investment management corporations like Merrill Lynch, and for the public sector institutions such as local authority bonds, government stocks or savings organisations such as post offices.

There was also a major move into equities due to the substantial bull market in the major financial centres.

This tendency had an opposite flow after the crash of 1987, banks could then look to a return of funds from the equity markets as investors returned to cash and what they felt as safe deposits. In 1984 retail deposits in USA still accounted for 56 percent of total bank deposits, however since the mid 1970's the development of money market mutual funds had attracted deposits, from small savers which amounted to over 200 billion \$ by 1984. They offered a rate of interest fixed to the money markets and proved an attraction too tempting to avoid for many. As interest rates grew in the early 1980's in the face of high inflation to nearly 15% higher than deposits left in traditional savings and loan deposit accounts.

Although the mutual funds were not insured, neither were they required to place part of their funds with the Federal Reserve in non-interest earning deposits. These funds were, and are, extremely cheap to operate, making use of telephone and direct mail, they do not need any kind of branch network. These funds could, in the USA, be collected from anywhere without restrictions of State boundaries which artificially constrained the activities of the banks. These funds grew with most of the funds being withdrawn from the traditional banking industry.

This trend is indicated by Channon(1988) as the reason that eventually forced the regulatory authorities to relax traditional investment rate ceilings and allow the banks to develop more competitive deposit products.

Advocates of allowing the banks to participate in securities market activities argue that it is not fair to restrict commercial banks to pursuing activities in competition with brokerage firms. These firms have been able to pursue traditional banking activities with the development of money market mutual funds and cash management accounts. Why then should not banks be allowed to compete with brokerage firms in those firms traditional areas of business?

Schouppe argues about the logic in allowing commercial banks to offer both equity and debt financing to firms, in view of the fact that banks, savings institutions, public credit institutions, brokers and insurance companies are all invading each others 'turf'. However he doubts if in the long run this is the right route to follow.

The case against allowing banks to enter, argues that the securities business, particularly investment banking, involves much more risk than traditional banking activities. A bank can suffer substantial losses if it is unable to sell securities it has underwritten for the price it has agreed to pay to the issuer (see 2.1 - Investment banks). However a select number of large global financial service companies are expected to develop further in the coming years with the capacity to operate 24 hours a day and be able to provide most, if not all, financial services to institutions and individuals. These institutions are expected to maintain a large equity base to permit such operations and expansion.

Angermuller believes that as long as economic conditions remain relatively stable, both individual and institutional customers will deal almost exclusively with and through, banks and savings institutions as their principal financial intermediaries.

The loss of banking deposits around the world had thus been mainly caused by the offering of superior deposit products by non-bank institutions and by the growing sophistication on the part of medium and high net-worth depositors. A switch to equities is also a reason considered by several authors as well as by banks in their reports.

## 2.6 SECURITISATION

The 1980's proved to be a generally difficult period for commercial bankers faced with problem loans to developing or East European countries, as well as to troubled domestic sectors. Traditionally, banks had no one but themselves and their own borrowers to please; the banks were the only investors in the loans they made or the securities they purchased, and they shared all the risk with the borrowers, having to operate within the financing constraints of the assets. Increasingly however, banks will not hold the financial assets they originate. They will securitise and sell them to other investors. Securitisation is the simple process by which debts take the form of negotiable instruments.

Bank managements have in the 1980's improved their institutions by generating income from no or low risk activities. To circumvent credit risk, commercial banks have developed fee-based activities also called off-balance-sheet financial services, such as launching of security issues for enterprises or governments entities, trading brokerage activities (in securities, precious metals or foreign exchange), deal making and advisory services.

Income from these new activities complement the traditional margins between active and passive interest rates. The bankers lending power changes into placing power, serving issuers and investors, transforming credit into negotiable instruments and shifting the bank's risks. Another of the costs of bank direct lending is the fact that it has to be covered by capital ratios in most of the jurisdictions.

Banking legislation in a number of countries does not require special capital ratios for the function of distributing securities. By comparison the functions of stock-trading, market making or underwriting are subjected to capital adequacy requirements - though these requirements are often less stringent than those imposed in ordinary loans. Securities and other fee-based off-balance-sheet activities- in contrast to balance-sheet activities- are not subject to measures of minimum reserve imposed by the central bank.

Securitisation can also be in the interest of investors as it provides them with a wide spectrum of financial instruments to choose from to place their funds, and it facilitates the diversification of their portfolio.

The growth of bonds, Nif's, Frn's and Euronotes (see point 2.8) reflect the securitisation of corporate and governmental lending. (see table 2.2)



The tendency to securitisation had proceeded furthest in the USA where by 1980, net borrowing in commercial paper and bonds represented around 80 percent of the total, compared with less than 50 percent in the early 1980's.

'The securitisation of financial instruments is only in its infancy.' (Freeman)

Financial engineering will probably produce a lot of new instruments in the coming years answering to the new environmental pressures.

table 2.2

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 THE WORLDWIDE SECURITIZATION OF INTERNATIONAL LENDING (\$bn)
 

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	Jan-Sep			
	1983	1984	1985	1986
1- Securitized financing (2+3)	87	141	215	258
2- Bond issues	77	112	168	232
3- NIF's and similars	10	29	47	26
4- Syndicated bank loans	67	57	42	40
5- Other back ups	3	11	11	7
6- Total borrowing = 1+4+5	157	219	268	305
Securitized financing as % of total (1/6)	55	65	80	84

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source: Morgan Guaranty Trust Co

## 2.7 TECHNOLOGY

'In the quest for efficiency, technology is still the key to reducing unit costs.'

(Banking World, July 1983)

'The hall marks of the cashless society emerge from the experimental phase and become reality.'

(Fairlamb, The Bankers Magazine, January 1983)

New technology can bring substantial benefits to the banks, their employees and, more broadly, the general public. The range quality and efficiency of bank services could be radically improved. For example, the tedium of processing massive amounts of paper could be reduced and opportunities for implementing a shorter working week and better working conditions enhanced. As the major banks are linking their international branch networks for their own administrative purposes, some are also diversifying into providing direct electronic linkage for their corporate and individual accounts (office and home banking).

In 1984 Citibank doubled the number of terminals it had installed in customer premises for the second year in a row, bringing the total to 17,000 world wide.

(Annual report 1984)

It is in the stock and foreign exchange markets that most of the technological progress has been achieved. By 1985 NASDAQ (see point 2.2) provided bid's and offers from some 470 competing market makers in over 4,000 stocks to some 125,000 screens (An average of approximately 31 screens per stock and an average of approximately 266 screens per market maker). Significant economies of scale are available to the institutions with high-volume usage, because all competitors face the same software costs and because of the high experience effect in electronic banking. It is, thus, very important to maximize the number of transactions processed per terminal to achieve possible economies of scale.

'Electronic banking is helping to speed up all the financial markets, it is stimulating the foreign exchange markets by encouraging not only financial institutions but also multinational non-financial institutions to take positions, and is also increasing the velocity of money flows. The major investment institutions have increasingly been provided with the technological tools to enable them to drastically speed up their trading positions with much

better information. For institutions which previously valued their portfolios only monthly or perhaps weekly, the trend had been to on-line real time and to a dealing mode of management.'

(Economist 29-3-85)

'As the volatility of the financial markets had increased, information about money had become as valuable as money itself, nevertheless between 1975 and 1980 commission charges, at the NYSE, as a percentage of the principal value of securities transactions, fell by 57 percent for institutional investors and 20 percent for individual investors. The effect of lower dealing prices tended to increase volume which more than trebled in the same period of time, and reduced the volume of trade through off-exchange dealing- 'the third market'- from 7.87 percent of total volume in 1972 to 2 percent in 1980.'

(Walmsley, The Banker, March 1985)

This enormous growth is translated by the an interBank cooperative message switching system - Society for World Wide Interstate Financial Telecommunication (SWIFT) growing extension. Established in 1973, by 239 banks in 15 countries as a non-profit bank-owned cooperative, SWIFT had grown to around 2,000 banks in 50 countries by 1987, processing almost 1,000,000 messages a day, with traffic expanding at a

rate of 20 percent per annum. (Euromoney, August 1987)

Technological changes have speeded up the implementation of transactions, reducing costs and contributing to the expansion of international financial markets. In the future, technology will be absolutely vital for information, data processing, management decision-making, creation of new products and full electronic mail. Technological skill will be of paramount importance in gaining competitive advantage.

With this change two of the conditions of a perfect market are now fulfilled: inexpensive information is immediately accessible and universal.

BIS has estimated that costs of transactions have fallen by more than 90 percent in the past two decades because of major technological improvements.

This revolution has multiplied the capacity of financial institutions to transact business: distances have been instantaneously bridged, and large volumes efficiently handled (transmitted, processed or stored).

By speeding financial transactions these changes have reduced the need for holding idle financial balances.

They have helped the rapid processing of vast amount of information to interpret change, to reach quick decisions and to design complex financial instruments. Technology has stimulated the integration of financial markets, with a global 24-hour market for major convertible currencies and several financial products and instruments. A number of barriers are thus breaking up and funding can now be raised in areas far distant from those where they are placed or used.

The banks also found themselves under the obligation to provide key information services to help the customers to do their jobs. Lewis and Davis argue that without modern computing technology the costs involved in producing some of the new financial assets, such as, for example money markets' mutual funds and options could be prohibitive because of the continuous calculation needed for the valuation of the portfolio. It is the new technology that will dominate the banks' long term thinking and negotiation strategy. Reorganisation, especially in developing economies like the Portuguese will take place and most banks will need to increase their investments in technology, so they can survive in competition.

## 2.8 INNOVATION

Financial innovation is for banks as important as research and development is for other industries; innovation shows us how creative thinking can lead to higher profits. Traditionally, banks have placed only one type of investment with investors, namely their own deposits, and therefore banks had little incentive and opportunity to think about how that deposit instrument might fit into the investor's portfolio. But, all over the world financial markets are changing rapidly, with new financial instruments appearing almost every day (see table 2.3). The once staid banking industry is now highly dynamic with the distinction between different financial institutions becoming increasingly blurred. An acceleration in the pace of innovation, deregulation and structural changes in the last few years has transformed the international financial system in important ways. Major new financial instruments - mostly taking the form of off-balance-sheet commitments - have either been created or have dramatically increased their role in the financial structure. International credit flows have shifted away from loans through large international banks into direct credit markets, the volume of daily transactions has multiplied, financial markets have become far more closely integrated and world wide capital has



DIVERSIFICATION BY MAJOR BRITISH CLEARING BANKS 1968-87

1968

Products	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v	x
Clays			W	W						A	A	W					W	W					
Boys			W	W	A					J	?	W											
Land	A	A	A			A				W	J	W					W						
West	W	W	W	J	W					W	?	W	W			W	A						?

1987

Clays	W	W	W	W	W	W	W	W	W	W	W	W	W	W	A	W	1	W	W	W		?	W	?
Boys		W	W	W	W	W	W	W	W	W	W	W	W	W		W	J	W	W			?	W	
Land	W	W	W	W	W	W	W	W	W	W	W	W	W	W	W	W	W	W	J	W			?	?
West	W	W	W	W	C	W	W	W	W	W	W	W	W	W	W	W	W	J	W			?	W	W

PRODUCTS CODE

- Securities dealing
- Securities underwriting
- Merchant Banking
- Foreign currency lending
- Unit Trust management
- Leasing
- Insurance broking
- Mortgage lending
- Insurance underwriting
- Credit finance
- Venture capital
- m Trade finance
- n Counter trade
- o Computer bureau
- p Travel service
- q Channel Island trustees
- r Credit card operations
- s Personal tax & financial planning
- t Estate agencies
- u Private Banking
- v Cash management
- x HNWI bank account

Wholly owned subsidiary    C= Controlling interest

Limited engagement in activity    1= Travellers chqs only

Source: Channon 1988

become much more mobile.

Several different reasons are suggested as financial innovation stimulating forces by the different consulted sources

- rise in inflation (BIS)
- the increase in volatility (Angermueller)
- increased volatility of interest and exchange rates (BIS and Channon)
- to serve investor protection needs (BIS and Freeman)
- change in regulatory environment (BIS)
- the bank customers who ask the bank for advice and practical assistance (Holzach, R)
- desire to reduce risk (Mishkin)
- avoid certain future risks such as getting locked into fixed interest rates, periods, currencies or other terms (Mishkin)
- desire to exploit new technology (Mishkin)
- desire to avoid regulatory constraints (Iffland)
- desire to escape or minimize obligations, institutions may be subject to by fiscal, monetary or supervisory authorities (Mishkin)
- avoid capital adequacy requirements related with safety and soundness of the financial structure, or to deal with liquidity problems. (BIS and Mishkin)

It is then very natural, with such a number of indicated causes, that there has been an explosion in the demand for innovative financial instruments. The desire of economic agents for new vehicles that perform the functions of transferring risk, enhancing liquidity, and generating debt and equity, have also fostered very rapid growth in the supply of new instruments: those that try to redistribute interest rate and exchange rate risks and the impact of inflation (separating credit worthiness risk from market risks) and those aimed to enhancing the liquidity of particular instruments or institutions.

These new instruments include:

- . The floating rate loan
- . The development of variable rate debt instruments - Cd's (certificate of deposits) and Mortgages
- . Options market for debt instruments (currency and interest rate)
- . Interest rate and currency swaps
- . Futures market for financial instruments
- . Nif's (Note issuance facilities)
- . Fra's (Forward rate agreements)
- . Ruf's (Revolving underwriting facilities)
- . Eurocurrency
- . Zero coupon bonds

For some of these instruments such as Eurobonds, Frn's and Cd's the interest rate is normally set relative to LIBOR (London Inter Bank Offer Rate), usually with a margin of around one quarter percent over.

The options market deals in contracts which give the purchasers the right to undertake future transactions, that is, the purchaser gets, by paying an initial fee for the contract, the right but not the obligation to buy or sell an asset at an agreed price at some future date or over some specified time period, thus limiting downside risk while leaving open upside potential of gains.

By buying financial futures an investor can, for example, buy an interest rate contract which locks in a known rate of return. If the investor expects future interest rates to fall he can sell forward the present rates or any other value between the difference, while if he expects rates to rise he can buy the present rates or any other value between the gap.

In the USA three major futures markets have developed:

The Chicago Board of Trade, The International Monetary Market (IMM) a division of the Chicago Mercantile Exchange, and the New York Futures Market (NYFM).

'Major participants in the new financial products markets are commercial banks dealing in foreign exchange, and multinational companies anxious to hedge against exchange risks.' (Channon 1988)

**EUROMARKETS (see table 2.4)**

An eurocurrency technically is any currency on deposit outside the borders of the home country of that currency and beyond the control of its regulatory authorities. This is one of the most important financial markets used in the OECD countries. The unusual feature about this market creation is that this important market was an answer to the Soviets' fears and it has much of their creative financial power. In the early 1950's during the cold war period, the Soviets had accumulated a substantial amount of dollar balances held by banks in the USA. Because the Russians feared that the USA banks might freeze these assets, they moved the deposits to European banks where they were safe from expropriation. This was not an unjustified fear, considering the US freeze on Iranian assets in 1979. However the Soviets wanted to keep the deposits in dollars so they could use them in their international transactions. The solution was to transfer the deposits to European banks but to keep their denomination in dollars. When the Soviets did this the eurodollar was probably born. This justification is the main creative cause, frequently referred by different authors, but the Marshall Aid plan could also have been an influence in the creation of this market. Similarly and more recently, there has been a substantial flow of flight capital by rich individuals into

the Euromarkets from high political risk countries or just as a mean of tax evasion. From its initial base in London this market has expanded to embrace a wide variety of different centres around the world such as New York, Paris, Luxembourg, Bahamas and Caymans, Hong Kong, Singapore and Tokyo.

table 2.4

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EUROCURRENCY MARKET SIZE (\$ BILLIONS)

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	1972	1974	1976	1978	1980	1982	1984	1986
Estimated gross size	210	395	595	950	1515	2146	2352	3560
Liabilities to non-banks	35	80	115	190	325	634	684	938
Liabilities to central banks	25	60	80	115	150			
Liabilities to other banks	150	225	400	645	1040	1512	1688	2622
Eurodollars as % of gross liabilities	78	76	80	74	74	79	80	87

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source: Morgan Guaranty Trust Co.



The recent innovations in banking also include aspects such as wholesale banking, Asian currency market, roll-over credits, office and home banking, provision of financial information, global cash management, self-service bank, credit, debit and smart cards, automated teller machines (ATM's) and electronic funds transference (EFT).

In relation with the aggregate risks of all these new financial products and services, Languetin argues that the relative strength of the financial sector depends on the level of risks existing in the economy. He argues that this new generation of financial products has not yet passed its most crucial test, ie, that of economies in deep recession. The question then is: has the development of financial innovations helped to reduce risks?

From a micro-economic perspective those innovations have helped both issuers and investors to limit or hedge risk and may in some sense enhance the liquidity of particular classes of instruments or indeed institutions. However, the same level of risk will naturally exist in the economy.

## 2.9 DELIVERY SYSTEMS

Probably 80 percent to 90 percent of all payments are still made in cash. About 60 percent of all non-cash payments in the UK are made by cheques and very often the process involves the transfer of funds from one bank to another (see table 2.5). In 1987 it was estimated by the London clearing banks that about 60 percent of their UK staff were employed in money transmission services.

The growing use of ATM's and EFT's at point of sale (EFTPOS) and the spread of home banking can be expected to play a large part in changing the daily life of bank staff - while wage costs are rising at least in line with inflation the costs of ATM's are falling in real terms by 6-10 percent a year.

Amongst the major American retail banks the trend has been the same:

- . increased automation
- . more ATM's
- . specialist branch offices
- . fewer retail banking employees.

table 2.5

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COMPARISON OF THE RELATIVE IMPORTANCE OF PAYMENTS  
OTHER THAN CASH

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	CHECKS	CREDIT(a) TRANSFERS	DIRECT DEBITS	PAYMENTS BY CREDIT CARD
(as a percentage of total volume of transactions in 1983)				
<hr/>				
CANADA	91	(insignifi)	2	7
FRANCE	(b)82.5	9.2	6.2	2.1
GERMANY	11	57	32	(insignifi)
ITALY	(b)85.3	(b)12.7	(c)1.5	0.5
JAPAN	(d)18.7	14.8	56.3	10.3
NL	(b)22.3	62	15.6	(insignifi)
SWEEDEN	20	72	1	7
SWITZELAND	10.6	88	0.8	0.5
UK	61	23	6	8
USA	(e)98.6	0.9	-	7.2

---

Source: BIS

a Including Interbank transfers

b Including postal checks

c Data are for 31 banks accounting for 70 percent of the total balance-sheet assets of the banking system

d Including bank checks, bills and promissory notes

e Including payments on credit card accounts

One estimate suggested that over 500,000 teller jobs will be eliminated in the coming years in the USA.

Channon, (1986), said that customers also prefer to use ATM's instead of tellers.

Market research in a number of countries has shown that in many cases bank customers actually prefer to conduct their transactions on ATM's rather than using tellers.

Moutinho (1989), speaks about a greater level of acceptance towards the incorporation of new functions and services to be provided to EBC's (Established Bank Customers) through ATM's. He also found an increasing perception of safety when making deposits in ATM's.

At present ATM's can do about 60 percent of a teller's job, however there are estimations that some future ATM's will be able to perform 90 to 95 percent of the teller functions. ATM's are being installed where they are close to the point of demand (see table 2.6): in supermarkets, petrol stations, transport stations and airports.

table 2.6

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 ESTIMATED US POINT OF SALE DEBIT TERMINALS
 

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## 1990 Estimates

	monthly transf. per terminal	EFT POS terminals	share of total
Supermarkets	624	74760	42
Petrol retail	1764	30260	17
Convenience	1470	12460	7
Fast food	400	17800	10
Other	140	42720	24
Total	734	178000	100

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 source: American Banker

**ELECTRONIC FUNDS TRANSFERENCE**

With the telecommunications and computer developments there seem to be better ways of organizing payment systems, systems in which all the payments would be made using electronic telecommunications. By entering the secret code (PIN) at the terminals, anyone will be able to move funds from their bank accounts. This system includes all kind of money transfers, at the point of sale (EFTPOS) and any kind of bill to pay. On ATM's or home and office computers, the operations are on a real time basis. No people are required to process any paper; time is saved for both customers and retailers when making payments. It is estimated that EFTPOS operates at twice the speed taken by a cheque payer or plastic card user when a voucher is involved.

'It is very significant that there has been no resistance to the widespread use of EFTPOS in any retail sector; some large retailers have developed their own internal electronic point of sale terminals to process sales and stock information and are now beginning to use this equipment for EFTPOS.' (Corper, 1989)

## OFFICE, HOME BANKING AND TELEPHONE BANKING

These services permit customers, both personal and corporate, account interrogation, interaccount transactions, bill payments, loan generation and electronic mail within the home or office.

Telephone-based banking is beginning to emerge as a potentially significant system (in point 2.10 there is some deeper explanation about the operation of this new system).

## BRANCHES

Most branches have traditionally offered full service, providing the complete range of bank services to all kinds of customers including both personal and corporate .

The cost of providing full branch-based transaction services has come under increasing scrutiny by comparison with the cost of using alternative delivery systems, notably ATM's, EFT, telephone and home banking. This led to the introduction of a variety of new pricing strategies where banks increasingly tried to recover the cost of transactions, using price as a mechanism to encourage a switch from paper-based systems to electronic banking.

The universal branch had come to be seen both as expensive in its overall operation and also as not necessarily

efficient in providing specific services to particular customer groups. Electronic oriented branches will replace many traditional branches. Transmission services can be provided by debit and credit cards at the ATM's or by telephone banking, much faster and more cheaply than the traditional ways.

John Reed, chairman of Citibank, estimated the cost of service of a credit card holder to be \$20 a year compared with about \$150 to service a bank customer using branches and teller services.

#### FULLY AUTOMATED BRANCHES

In these branches, which do not use especially advanced technology, cash deposits, withdrawals, balance enquiries and international transactions can be conducted by the customer without bank employees' intervention. Employees can be present in the branch just to assist customers in using the machines and also to provide advice on non-automated services.



## CORPORATE BRANCHES

Such branches do not normally handle retail banking business but offer a range of services used by medium-sized corporate accounts within a particular geographic area. In addition to domestic services such outlets are equipped to provide a number of international and investment banking services such as foreign exchange, trade finance products, letters of credit, asset based finance and corporate cash management.

In the UK several automation schemes have started:

- Clydesdale started Counterplus in 1984
- Anglia building society started Pay Point in 1985
- All the major Banks started EFTPOS in 1986 and 1987
- Barclays launched Connect in 1987

There are estimates that by 1995 there could be as many as 300,000 payments terminals in the UK with about 40 percent of total retail turnover completed electronically.

The Nottingham Building Society, for example, in partnership with the Bank of Scotland, has launched HomeLink, Britain's first home banking system. The system developed with British TeleCom, enables the customers to operate the service 24 hours a day, seven days a week. HomeLink uses the telephone

system and a special console connected to an ordinary TV set (the telephone line acts as the cable in which the signals are transmitted to and from the TV set). HomeLink customers have a current account and a cheque book, issued by the Bank of Scotland. Each individual HomeLink account is protected by a security system to ensure safety and confidentiality. Once familiar with the service, the customer is expected to go through the security procedures in about a minute to get his or her personal account details on screen. HomeLink allows the customer to:

- . switch on his home TV set and see his Nottingham Building Society and his Bank of Scotland account statements on the screen, and arrange to transfer money between the accounts
- . pay households bills such as rates, electricity, gas and so on, direct from his TV console
- . choose, buy and pay for a range of consumer goods and services
- . send letters instantaneously to the Nottingham Building Society and to other customers and business on the system.

After 1985 the Nottingham Building Society ceased to invest heavily in a branch network. The Economist of 26-01-85 refers that this society considered that each new account generated through its home banking facility cost only a third of that of a similar account produced from a branch system. Similarly the Bank of Scotland has no strong

branch network in England and Wales.

Also Barclays and Midland have doubled the number of installations on sites such as university campuses, factories, industrial estates, hospitals, military bases and shops and shopping centres.

In table 2.7 distribution of ATM's and card holders among the banks is shown.

(Table 2.7)

## DISTRIBUTION OF ATM'S AND CARD HOLDERS IN THE UK

	NUMBER OF ATM'S (Nov 1988)	NUMBER OF CARD HOLDERS
Clydesdale + Midland		
+	5.300	13.000.000
Westminster + TSB		
B. of Scotland + Lloyds		
+ Royal B. Scotland	4.400	11.000.000
+ Barclays		
Link\Matrix	2.000	8.000.000
Halifax Building Society	900	3.300.000
Yorkshire Bank	200	1.000.000

## 2.10 PRESENT AND FUTURE STRATEGIES

For many banks, internal control systems which enable them to measure the profitability of clients and services were still not available by the late 1980's. Such banks were often pursuing markets without a solid economic conviction. As one general manager for a major British clearing bank put it recently when describing correspondent banking services: 'I believe I am losing money on half of the services I am offering, the only trouble is I don't know which half'.

For banks, the speed and accuracy of information is crucial for decision making. Banks will tend to focus and refocus their efforts and attention on their core business and at the same time develop their alertness to external changes. As a result they will become more flexible and will be able to adjust quickly.

Crane and Eccles argue that the way to win the competitive struggle among banks (their research focus on commercial banking) is to focus on management and organization. They highlighted three stages in building the banks organizations:

- 1- Recognize each activity as a separate business
- 2- Develop different strategies. Once separated, each unit identifies a different source of competitive advantage.

- 3- Identify key links and foster collaboration among units. Few banks have advanced to this stage, but the most successful will develop the ability to do something beyond running individual businesses well. To serve customers better, top managers will identify the links among each unit's key activities in order to provide the an efficient service.

Llewellyn emphasizes the role of the 'new single European market' (deregulation process) which will result in a more competitive environment, together with the impact of the new technology and internationalisation. These three pressures will bring consequent challenges, threats, opportunities and risks. Arbitrage will eliminate differences in the price of financial intermediation and other services between countries which can vary for three general reasons:

- 1- Differences in the efficiency in different financial systems
- 2- Different regulatory 'taxes' imposed in different countries
- 3- Differences in the comparative environment

In principle a high price of financial services in one national system will be competed away either through the entry into the domestic system of foreign firms or by the

users of financial services using foreign markets and institutions.

Smart, 1989, writes about possible price reductions in financial services in the European Community from 21 percent in Spain to 4 percent in the Netherlands (it will be seen in chapter 5 some cases of 500% price differences, between Portuguese institutions and institutions operating globally). Banks' margins will come under increasing pressure, due to the higher cost of deposits and lower price of loans. These margins are, in general, wider in retail than in wholesale business because:

- 1- The corporate sector has had access to a larger number of banks than the personal sector
- 2- For the corporate sector the capital market is a potential competitor to banks, and the capital market has been particularly innovative in recent years.

Thus, marketing is becoming an even more important and fundamental driving force for banking strategy. The banks, however, will have to bear in mind the preferences of the investors when originating new financial products; the new finance tends to be more customer than product driven. Linerick argues that the retention of private clients will determine the fortunes of many houses.

**INFORMATION ON THE CUSTOMER**

Good customer information is seen as the key to future market share. Banks will need timely and comprehensive customer information within their branches, along with the capability to manipulate that information at the counter, and to show the customer what services are available to him, what price he will have to pay, and what benefits he can expect to gain from them. This strategy tends to assume much greater importance because customers have become increasingly more price sensitive as their general knowledge of the cost of financial services improved. More over, due to the lack of customer segmentation, different classes of customers have been charged the same irrespective of their level of service usage and balance. Price competition has been increasing throughout many areas of the financial services industry. Many institutions had endeavoured to reduce the impact of price erosion by attempting to adopt niche or specialization strategies. As a result all financial service institutions have been forced to examine ways in which they could increase their efficiency and productivity, and at the end better serve the client and better compete.



**BANKING - RISKY GAME**

Experience and investment in information and careful analysis should provide some guidance for avoiding a repeat of mishaps such as the third world debt.(table 2.8)

Galliker believes that fair and prudent competition in the financial sector can prove over the longer term to represent a powerful engine of change and progress. Banking is a business without patent law, and any new service introduced can quickly be duplicated. Pioneering profits in today's competitive banking world can last as long as it takes a mountaineer to scan the horizon after scaling a 12,000 foot peak.

The big difference will be the quality of the bank's staff. The best guarantee for the best banking strategy will remain the well trained, knowledgeable banker who performs his mediator role with an equal responsibility for both the deposits and loans of his bank. Banking management has to be aware of this fact, the development of the labour force is going to be a formidable task; technology is and will be just part of the job. In general the size of the workforce is likely to decrease, and banks might be forced to encourage the departure of certain personnel, using financial incentives.

Banks will need more specialists because new sophisticated products and services will be offered in areas such as foreign exchange, bond trading, financial engineering and portfolio management. There will also be an increased demand for generalists and not only in top management. As banks become more client oriented rather than product-driven, clients need to be approached by bankers who can put global product and services packages together. Strategy as regards new financial products is complicated by the fact that their potential and even more their inherent risks are not sufficiently well known - they have yet to be tried and tested - the bankers must evaluate as comprehensively and accurately as possible the new risks.

Holzach (1986) concluded, when studying the financial institutions reactions to financial innovations, that in general experience is not of much value. He argues that imagination, intellectual curiosity and sceptical perseverance are better equipment for analysis and prognosis.

A safer long term strategy should include a tightening of the internal regulations and surveillance procedures to such an extent, that any risks being taken can be recognized immediately.

Training of personnel involved with the new financial instruments has to be of the highest standards, the analysis of business partners and their credit worthiness also has to be improved and the internal means of control have to be extended to every new ground. Strategy for the new financial instruments should be determined by a cautious and extremely detailed awareness of the risks. It would be wrong to stand waiting for rules. At this stage self-control and self-discipline are preferable to further legislative and administrative intervention. Each bank needs to make an analysis of its strengths and weakness and then compare those to the environment in which it plans to operate. The result of the analysis will differ from bank to bank. Whether it concerns new or traditional business, it remains a case by case matter. Firms in general, are not interested in change for the sake of change but making those changes that are necessary to improve market share and profits. In a world in which the necessary conditions for achieving market success have become far more complicated than in the past, it is then necessary to identify the competitive advantages of each institution.

table 2.8

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LOAN LOSS PROVISION TRENDS 1982-86

FOR THE MAJOR US AND UK BANKS

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	1982	1983	1984	1985	1986
-----					
US banks \$m					
J.P. Morgan	114	230	150	335	265
Chase Manhattan	230	254	215	320	475
Citicorp	473	520	619	1243	1825
Chemical N.Y	117	166	165	113	170
Bank of America	501	658	860	2180	2004
UK banks (*)					
Barclays	300	442	469	416	416
Lloyds	219	219	269	257	215
National Westminster	116	155	199	255	313
Midland bank	196	318	616	431	357

-----

source: BIS

(\*) Millions of pounds

## 2.11 FACTORS OF SUCCESS

The winners will have similar characteristics. They must be flexible in their thinking and in their capacity to adapt to change. They must have low cost technology-based distribution systems while still offering quality service. They must understand who their customers are as well as what their chief assets are in terms of the competitive environment. They must implement an aggressive marketing strategy and deliver on the promises made.

In a conclusive form, Dimitries proposes seven points of attention:

- 1- Evaluate how the rising curve of innovation affects the customers, the employees and the products
- 2- Play a great deal of attention to planning and training
- 3- Be ready to think the unthinkable
- 4- Challenge the obvious
- 5- Adjust swiftly to market pressures
- 6- Dismantle old structures to increase manoeuvrability
- 7- Rethink functions

An OECD study (Paris 1988) suggests that the revival of computerized technologies everywhere are contributing to a major shift in focus away from production towards customer

assistance; the transformation of old products and the development of new ones.

It also identified as change variables, the following:

- . The capacity of banks to decentralize - geographically and or organisationally (location of work & location of decision-making responsibilities)
- . The extent of automation - front and back office and in management information systems.
- . The capacity of banks to change the division of labour - both in front and back office.
- . The capacity of banks to effect a shift to a new strategy of 'qualitative' growth with a strong market orientation.
- . The capacity of firms to shift to a labour force with greater educational preparation.
- . The capacity of firms to become more flexible through more extensive use of out-sourcing, part time employment, and other forms of contingent employment.

Toft, (1986), argues that the personnel have to be developed by education, training and varied work experience and that to be successful a bank must ensure that satisfactory staff development takes place.

With respect to customer perceptions of personnel education and behaviour, Moutinho (1989), reminds us that as far as the customers are concerned, the person on the other side of the counter, or end of the telephone is the organization, and for this reason most of the big financial institutions have now implemented customer care training schemes. Moutinho also affirms that customers are more likely to seek the services of another bank in situations where high interest rates on credit cards prevail, interest rates on savings accounts are low and where and when a loan application has been refused.

At the end of the day successful bankers are and will be those who distinguish ahead of competitors the new needs and opportunities and respond without delay with the appropriate products, who can look forward enough to take advantage of the new technology, who can deliver what the customer wants, in the most efficient way.

In one of its regular studies of 388 leading US multinationals, Greenwich Research Associates found in 1982 that the most important factors for big companies when deciding to use a bank as a lead institution were its competence in operating global multinational relationships, the high calibre of its account officers, and the extent of the bank's overseas branch network.

3 - MACRO ASPECTS



CHAPTER CONTENTS

- 3.1 - Banks and Macroeconomics
- 3.2 - The single bank union
- 3.3 - Financial centres

### 3.1 BANKS AND MACROECONOMICS

Because of the two vital functions that banks perform: the conversion of savings into loans and securities, and the performance of the payments mechanism, banks are regulated. The objective of banking regulation is to balance the safety and soundness of these institutions against their efficiency. It is important that a bank should ensure that it has sufficient liquidity to meet all possible demands likely to be made on it.

The banking industry is seen as playing a major role in the process of industrial development. Differences between the relative economic successes of different countries have, in part been attributed to ways in which the role of banks varies in the process of industrial investment.

The rapid and vigorous expansion of the innumerable financing transactions and of those of pure speculation - options, futures and most swaps - does not seem to present any problems for the implementation of monetary policy.

However the supervision of banks is no longer a relatively straight forward process of asking some questions about the quantity the quality and maturity of debt and comparing it with liquid capital.

For example, foreign debts, long regarded as being in a privileged category on its own, may now be regarded as amongst the more hazardous assets, at least as regards liquidity. It is important not to forget that most of the new activities of banks generate off-balance sheet assets.

Financial groups which include banking operations will shortly be embarking on all sorts of new activities concerned with the holding and trading of securities.

These require different forms of capital backing and different skills in supervision. The approach is highly mathematical involving analysis, understanding and evaluation of new risk categories.

Mikdashi argues that a more rigorous assessment of risk assumed by financial institutions and a faster reporting to monetary and supervisory authorities will be needed. He also believes that the observance of safety standards must accurately be respected (especially with respect to an adequate equity base to cushion exposure's risks) whether these are actual or contingent, national or international, within or off-balance sheet.

### 3.2 THE SINGLE BANK UNION

With a view to the creation of a single financial market by the end of 1992 the Community has issued a number of directives, some of which have now been adopted and others are still at the proposal stage. The aim is the harmonization of the rules for each individual member country applying to financial services (banking, insurance and securities transactions) and at the gradual liberalization of capital movements among member countries. The process of deregulation that the European community has engaged on, will bring several transformations in the financial environment of the various EC countries.

The two main legislative measures concerning the banking activity in the community, are the first and second banking directives.

The first European banking directive is the first attempt to harmonize the terms of access and the operating conditions of banks. This directive lays down minimum rules concerning authorization in terms of own funds, as well as number, and experience of managers. This directive also establishes a list of permitted activities for banks in the European Community.

Banks are authorized to perform the following activities:

- 1- Deposit taking and other forms of borrowing
- 2- Lending (consumer credit, mortgages and factoring trade finance)
- 3- Financial leasing
- 4- Money transmission services
- 5- Issuing and administering means of payments (credit cards, travellers cheques and Bank drafts)
- 6- Guarantees
- 7- Trading for own account or for account of customers in:
  - a)- money market instruments (cheques, bills, CD's etc)
  - b)- foreign exchange
  - c)- financial futures and options
  - d)- exchange and interest rate instruments
  - e)- securities
- 8- Participation in share issues and the provision of services related to such issues
- 9- Money broking
- 10- Portfolio management and advice
- 11- Safekeeping of securities
- 12- Credit references services
- 13- Safe custody

Note: 7,8,9,10 are Investment Banking activities

All these services can be offered from across a country's borders, and there is no need to have a branch in a particular state. At present, when a bank sets up branches in another Community country, the activities of those branches are restricted by the host country's rules.

The second banking directive issued in January 1988 brings two new principles:

- 1- The home country of an institution will be responsible for the regulation, control and supervision
- 2- There is to be a mutual recognition by all member governments of each others regulatory arrangements.

The aim of the directive is to create a truly internal market in banking in which any credit institution authorised in a member state will be able to establish branches and to offer its services freely throughout the community.

Access to another member state banking market can now be secured in five basic ways:

- 1- By building a location
- 2- By mergers and acquisitions where two institutions of different nationality merge so that a single institution has universal access in both countries
- 3- Through the purchase of a company in another country which has ready access to customers
- 4- Through developing business links

## 5- Via trade

Banks from 'heavy' regulated countries are nervous about this aspect of home country control because of the competitive inequalities that will result. However and to give some protection and time to prepare them selves, the directive sets a dead-line for the removal of remaining restrictions on capital movements within the Community: June 30, 1990 for most members states, December 31, 1992 for Spain and Ireland and also, though with a possible extension to 1995 to Greece and Portugal. Most banks are giving priority to the defense of their geographical home turf and locating functions in the major financial centres - London, New York and Tokyo. Defensive tactics are likely to be considered first. In a second phase banks might examine whether they can extend their activities and influence to neighbouring regions. The unified market will not be a totally uniform market. There will always remain differences of culture, but we will see global strategies emerge in Europe as cross banking becomes easier.

### 3.3 FINANCIAL CENTRES

J. Holland (1990) set up a diagram with the attractive features of financial centres.

Thus, the most attractive a financial centre is, the higher are the following characteristics:

- 1- Low degree of regulation of non resident banking transactions (no reserve requirements and no interest controls)
- 2- Allowance of all types of banking and all types of banking firm combination
- 3- Low political risk
- 4- Number of overseas firms listed in the local stock market, volume of Eurobond and foreign exchange markets and the range of financial trading and engineering skills available in the centre
- 5- Sophistication of global communications, sophistication of domestic capital markets and banking. The scale of the domestic economy
- 6- The centre language, the centre currency and the centre time zone
- 7- The level of self regulation and market forces
- 8- Benign tax laws with exemptions for banking activities



table 3.1

----- INTERNATIONAL FINANCIAL CENTRES -----							
type of institutions							
activity:		US BANK HOLDING	JAP CITY BANK	UK CLEAR' BANK	US SECURI FIRMS	JP SECURI FIRMS	UK MERCHA BANKS
BANKING	NY	Y	Y	Y	S	S	S
LICENSE	LO	Y	Y	Y	Y	Y	Y
	TO	Y	Y	Y	N	N	N
DEALING IN	NY	N	N	N	Y	Y	Y
CORPORATE	LO	Y	Y	Y	Y	Y	Y
SECURITIES	TO	S	N	S	Y	Y	Y
FOREIGN	NY	Y	Y	Y	Y	Y	Y
EXCHANGE	LO	Y	Y	Y	Y	Y	Y
DEALING	TO	Y	Y	Y	N	N	N
DEALING IN	NY	Y	Y	Y	Y	Y	Y
US	LO	Y	Y	Y	Y	Y	Y
TREASURIES	TO	N	N	N	Y	Y	Y
DEALING IN	NY	N	N	N	Y	Y	Y
JAPANESE	LO	Y	Y	Y	Y	Y	Y
GOV'T BONDS	TO	Y	Y	Y	Y	Y	Y
TRUST	NY	Y	Y	Y	S	S	S
BANK	LO	Y	Y	Y	Y	Y	Y
	TO	Y	N	Y	N	N	N
ACCOUNT AT	NY	Y	Y	Y	S	S	S
THE CENTRAL	LO	Y	Y	Y	Y	Y	Y
BANK	TO	Y	Y	Y	Y	Y	Y

-----  
SOURCE: Federal Reserve Board of New York

NY-NEW YORK  
LO-LONDON  
TO-TOKYO

Y-FULL LICENSE  
N-NOT PERMITTED  
S-UNDER SPECIAL CONDITIONS

Table 3.1 presents a comparison of permitted activities in London, New York and Tokyo.

In London domestic and foreign banks can underwrite corporate securities - but not in Tokyo or New York.

Securities companies both domestic and foreign can deal in foreign exchange in London and New York but not in Tokyo.

Securities companies may hold a banking license in London but not in Tokyo and only under certain circumstances in New York.

Over time it is expected that these differences will disappear and deregulation will be essentially complete in the next few years in the principal markets, leading to an integrated global financial services market place.

As the leading euromarket centre, London provides active markets for all the convertible currencies, namely US dollars, German marks, Swiss francs, French francs, Japanese yen, Dutch guilders and Belgium francs as well as sterling.

Within the city of London nearly 500 banks, both domestic and foreign operate. This number has been increasing considerably since the early 1970's despite the substantial cost of operating in the London market. In addition there are over 20 merchant banks, 11 discount houses; some 20 finance houses and over 200 stock broking firms active in

the market. London also contains a substantial number of commodity brokers, licensed deposit takers, building societies and insurance companies. The future of London as the leading international financial centre seems assured, due to its time zone position and also as a consequence of the growing importance of global dealing for not only foreign exchange but also equities and debt securities.

London's advanced deregulation also ensures the maximum level of competition between all forms of financial institutions.

With the securitisation of lending, the birth of a global electronic equity market and a major foreign exchange market London allows commercial banks, investment banks, brokerage houses and other forms of market maker all to compete in all market sectors. This is a different position from all the other financial centres. Deregulation in London reached its peak in October 1986 with the Big Bang which removed the restrictive practices of the London Stock Exchange, now called the International Stock Exchange, and led to a dramatic increase in competition as commercial and investment banks both domestic and foreign rapidly absorbed most of London's traditional stock - brokers and jobbers to denominate the market. Meanwhile the traditional floor based exchange in a few months gave way to electronic trading of both domestic and international

equities.

In Japan the capital markets have emerged rapidly in importance since the beginning of the 1980's.

The Japanese domestic market has traditionally been very active in both commercial paper and bonds, however the increase in Japan's trading surplus coupled with deregulation has stimulated considerable growth in the Tokyo market as an international centre. Tokyo is clearly the third key link in the global capital market.

Bront (1982) considers that in Japan the management of the economy is under considerable influence from bureaucrats in the major ministries, which consist of some of the very best and brightest of Japan's most educated individuals. In 1980, 45,131 University applicants took the advanced civil service examination of which 1,254 passed. The best of these went to the Ministry of Finance (MOF), the Economic Planning Agency (EPA) and the Ministry of International Trade and Industry (MITI), the critical ministries in the management of the Japanese economy. Japan has also been enjoying the lowest strike rate the best labour productivity gain, a high rate of acceptance of technological change and a low unemployment. Technology is not seen as a threat but, rather as an opportunity to improve productivity.

The relationship between the banking system and industry

have been especially close in Japan. The major city banks are key members of the major industrial groups and traditionally up to a third of their loan portfolios are allocated to group member companies.

The multinational banks in contrast with the UK played little part in Japanese industrial development. At the beginning of the 1970's the few foreign banks operating in Japan had 3 percent of the domestic lending market. By 1987 the number of foreign banks operating in Japan had increased to 79, but this group still enjoying the same 3 percent of the domestic market. Foreigners found it extremely difficult to penetrate the domestic Japanese market, due to their lack of affinity to the major industrial groups and difficulties in obtaining access to low-cost domestic funds.

Throughout 1986 the Japanese banks competed aggressively amongst themselves for asset growth and much of this activity took place via their London-based branches. During 1986 Japanese bank cross border lending from London grew 40 percent, compared with 10 percent for British banks and a decline of 10 percent for the American banks. As a result, by the end of 1986, Japanese banks had established a clear lead in the international banking market with a 32 percent share of international assets compared with 19 percent for the US banks and 8 percent for French banks. (Bank of

England report, May 1987)

In addition to the banks, the leading Japanese brokerage houses were also emerging as dramatically important global players.

In London and Switzerland the focus of attack for the Japanese banks was in the areas of investment banking and securities market, by aggressive pricing and growing level of innovation. By 1987 the Japanese city and long term credit banks had become important players in international banking (see table 3.2) and they made up half of the world's top 25 banks as measured by deposits and assets. Moreover with an extremely high domestic saving rate, a strong balance of payments surplus and the growing internationalization of the major Japanese companies, the Japanese banks are expected to continue a grow in importance.

table 3.2

GLOBAL OFFICE NETWORKS OF LEADING JAPANESE BANKS 1987

	EUROPE								FAR EAST AND AUSTRALIA								
	UK	FR	WG	CH	NL	B	I	SP	OTH	JP	HK	SG	AS	PH	TH	KR	OTH
KYO	2B	F	3B			B	B	2B	2R	H	7B	2B	2R	B	B	2B	8B4
ICHI																	
YO	B	R	BR				R	R	R	B		B	2R		R	B	5R
ST																	
JPN	B	B	2R					R		H	B	B	2R		R		5R
TERM	B	R	R							H	B	B	2R		R		5R
UBISHI	B	R	BR	R			R	R		H	B	B	R	R	R	B	5R
UI	B	R	BR			B		R		H	B	B	2R	R	B	R	5R
TOMO	BR	R	BR	R		B	BR	2BR	2R	H	B	B	R		R	B	5R
I	B	R	2B	R				R		H	B	B	R	R	R	B	4R
	BR	B	B2R			B	R	R		H	B	B	2R	R	R	B	6R
A	B	R	BR			B	R			H	5B		2R		R		B4R

ANCHES R=REPRESENTATIVE H=HOME COUNTRY

(cont)

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GLOBAL OFFICE NETWORKS OF LEADING JAPANESE BANKS 1987

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LATIN AMERICA AND  
CARABBEAN

BZ MX AG VN PN BH OTH

---

NORTH AMERICA AND  
REST OF THE WORLD

USA CN UE BT USSR OTH

YO	R	R	7B	R	B		4BR	7B4R	2R	R	B		8R
CHI													
O	R	R	R	R	B			3B3R	R		R		R
T													
PN	2R	R			R			2B5R	R		R		R
ERM	2R	R			R			2B2R	R		R		
BISHI		R		R				4B	R		R		2R
I	R	R	R		B			4BR			R		
OMO		R	R	R	B			5B2R	R		R		3R
	R	R						3BR	R		R		R
	R	R					2R	5B3R	R		R		R
	R	R			B			5B2R	R		R		

---

e: Channon 1988



The large universal banks in Germany, like those in Japan, enjoyed a very close relationship with corporations.

Unlike their Japanese counterparts, the German banks were also strongly involved in equity finance, both for their own portfolios and those of their customers. They also dominated the market for corporate lending. The banks had thus exerted a substantial influence on the development of the major industrial companies in the West Germany and thereby in the industrial structure. Unlike in Japan, however, this power had not been tempered by an overriding state strategy for industrial development.

4- THE PORTUGUESE ECONOMY AND THE PORTUGUESE  
FINANCIAL SYSTEM

CHAPTER CONTENTS

- 4.01 - Introduction
- 4.1 - The recent Portuguese economic history -  
a brief look.
- 4.2 - The financial system in Portugal

## 4.01 - Introduction

This chapter contains an analysis\* of the Portuguese economy in recent times and an outlook of the financial system in Portugal. The periods of great instability\*\* , political, economic and social of the last decades, brought to the banking and financial business several direct and indirect influences. However the recent transformations that the Portuguese society has experienced, in particular after the EC membership, are bringing new life, vitality and modernism to this sector of activity. Because these economic environment issues, play such an influence in the banks and other financial institutions strategic decisions and behaviour, it was found essential to include this macroeconomic section.

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\* This analysis relates to the period of the last 2 decades upto 1988 because there was not available official further statistical data.

\*\* During the 1960's the overseas colonies war, and in 1974 a revolution.

Although being a superficial analysis, it contains many variables which explain the characteristics of the banking and financial business in Portugal.

The information on the economic environment will enable a better perspective of the banking and financial climate, and a better understanding of the problems and apathy concerned with the Portuguese banks and financial markets.

The second part of this chapter includes a description of the structure of the Portuguese financial system and a reference to the most relevant changes that have been taking place with the recent financial reforms. Reference is also made to the evolution and perspectives for this sector in Portugal.

#### 4.1 - The recent Portuguese economic history - a brief look

M.Irene Carvalho a senior economist from Bank of Portugal, when referring to causes and results concerning some of the recent Portuguese modern economic history facts argues that during the first half of the seventies the Portuguese economy was seriously affected by the 1973 oil crisis and subsequent world recession, as well as by the change in the political regime in April 1974 and the resulting process of decolonization of overseas territories.

She remembers the markedly expansionist measures that were taken in the realms of budgetary and wages policies, which were backed by monetary policy. As a result the inflation rate began to rise and both the general government sector (GG) and the external accounts registered growing deficits. From 1975 to 1977 domestic savings, on average, financed less than 45 per cent of fixed gross capital formation (FGCF), thus the recourse to external debt greatly increased. Hence from 1978 till 1985 monetary and exchange rate policies had to be directed chiefly to the current account of the balance of payments. The basic instruments adopted - within the frame work of two stabilization programs supported by stand-by arrangements with the IMF - were the adoption of a regular, and pre-announced, monthly

devaluation of the effective exchange rate, together with the setting of quantitative ceilings on the expansion of credit. M.I Carvalho believes that the latter reinforced the instruments already in place, namely, the setting of minimum reserve requirements and of administered interest rates. In this context, nominal interest rates were fixed at higher levels in order to promote savings, and make investments in escudos attractive in comparison to those denominated in foreign currencies. The result of this, in line with the atrophy of the capital market was that during the decade of 1975-84 the near totality of financial saving was channelled into the banking system, especially to six-month deposits.

The strong and sustained growth of time deposits, the setting of ceilings on credit granted by other monetary institutions (OMI) and the obligation imposed on the nationalized banking institutions (\*), in particular to the Bank of Portugal, of financing the high deficits of the GG, at preferential rates, resulted in the creation of a substantial excess liquidity of monetary institutions and, consequently, in the deterioration of the profitability.

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\* In March 1975 the Portuguese Banks (excluding only those with foreign capital) were nationalized.

More recently, in particular after the Portuguese membership of the EC, the Portuguese economy began to show the first signs of recovery.



#### 4.1.1 - The year of 1988

After two years of sustained growth, in 1988 the Portuguese economy slowed down somewhat. However it performed in a positive manner, with the gross domestic product recording a 4% increment in volume which, nevertheless, still represents a higher growth than that of the average EEC countries (3.5%) and even the OECD.

The level of investment continued to expand, having recorded an annual increase of 14% in real terms resulting from the favourable economic climate supported by the perspectives of future exports to the expanded European market, the reestablishment of the corporate sector's margin of profit and the resources coming from the EEC's structural funds.

The situation of the companies improved significantly, allowing corporate savings to rise from 3% in 1985 to 11% in 1988 as a percentage of GDP.

The strength of the economic activity made possible the decrease in the rate of unemployment. Portugal is now a country with one of the lowest unemployment levels (6.2%) amongst the twelve EEC states.

In 1988 the effective devaluation of the escudo was approximately 3.5% in relation to the currencies of our principal trading partners. Taking these currencies one by one at the end of 1988, the escudo had gone up in value against the Swiss franc and the French franc when compared with 1987, but had devalued in relation to all the other most important currencies, especially against the US dollar, the Pound sterling and the Japanese yen.

The average inflation rate of 1988 was 9.6%, roughly identical to that of the previous years, but in excess of the targets of economic policy (5.5% to 6.5%), this was a result of:

- a bad year for agriculture,
- the blocking of deflationary process abroad by increases in the international prices of raw materials other than oil to which the Portuguese economic structure is very sensitive, - the decrease in family savings levels from 27% in 1985 to 19% in 1988, as a percentage of GDP, due to moderated income rises, and unattractive types of savings and also to an increase in the level of expenditure namely of durable goods.

The EEC partners have been strengthening their position as Portugal's principal trading partners, both in exports (72% of total exports in 1988) and imports (65% in the same

period). Traditionally Portugal has negative external financial and trade balances, however it managed to maintain a positive level between 1985 and 1987, generated mainly from emigrant remittances mainly from West Germany, France, Canada and USA; the tourism industry and the important transfers of EEC funds to Portugal.

The weight of the public sector in the economy is continuing to fall, privatisations being the most important factor in this process; it should be explained that the public sector borrowing requirements amounted to 9% of GDP in 1988.

An important incentive to the economic development process is the national programme for community interest for production incentives (PNICIAP), which is contributing decisively to a growth in industry and tourism investment. This programme is made up of three incentives schemes, one the SIBR for regional development, a second the FIT for investment in tourism and a third SIPE for companies with organic growth potential; this programme was scheduled to last for four years (1988-91) and is expected to place a total of 40.900 million escudos.

The special programme to develop the Portuguese industry started at the end of 1988 and is another fundamental instrument which will complement the former.

In agriculture, EEC grants provided a greater balance between structural measures and stability, allowing several programmes within the framework of the FEOGA (European agricultural guidance and guarantee fund).

In general terms, the modernisation of the labour force was supported by the European Social Fund (ESF) as the principal agent.

All this evolution has raised several positive expectations in Portugal and in the future of its economy, a fact that is clearly demonstrated by the number of new companies established in 1987 and 1988 (almost 26.000 new companies); a recent study of RTP (the Portuguese television) concluded that in average there is, in Portugal, a new Spanish company every day .

The process of recycling and modernization of the productive structure may be the most important growth and development stimulus. This process is the key for Portugal's effective placement in the EC, and is the biggest challenge for the Portuguese economy where small productive units are the predominating elements: 80% of farm lots are less than 5 ha and in the manufacturing industry 87.5% of companies employ less than 50 workers, of which 32% have less than 5 workers. The closing of the gap between Portugal and the rest of the Community will be based in a structural modernization - an effort co-financed by structural funds provided by the EC (until 1992 1.200.000 million escudos will be made available).

Portugal is a very small country with 10.000.000 residents, highly dependent on the outside for food and energy (60% and 83% respectively of total consumption are imported). Portugal represents only 4% of the area, 3% of the population and 1% of the GDP of the EEC being the income per capita about one half of the Community average - see tables 4.1, 4.2 and 4.3 as examples.

TABLE 4.1

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HOURLY EARNINGS	
IN THE MANUFACTURING INDUSTRY (1987)	
PORTUGAL (base)	100
GREECE	165
SPAIN	213
ITALY	346
FRANCE	395
IRELAND	423
UNITED KINGDOM	468
BELGIUM	478
HOLLAND	507
LUXEMBURG	540
WEST GERMANY	600
DENMARK	736

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source: BPA

TABLE 4.2

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 STATISTICAL DATA ON PORTUGAL (1987\1988)
 

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Resident population	10.000.000 approx
Employed population	4.100.000 approx
GDP	36.1 * 100 million USD
GDP per capita	5868 USD

GDP by sectors of activity		Employment by sectors	
.Agriculture	9.3%		21.8%
.Industry	40.1%		35.6%
.Services	50.6%		42.6%

External debt/GDP 44%

Exports 9167 * 10 M USD		Imports 13424 * 10 M USD	
.Agricultural	8.3%	.Agricultural	13.5%
.Mineral	6.2%	.Mineral	12.1%
.Chemicals	6.4%	.Chemicals	12.8%
.Wood and cork	14.7%	.Wood, Paper, Leather	5.3%
.Textiles	32.2%	.Textiles	9.8%
.Leather and footwear	9.0%		
.Metals	3.6%	.Metals	7.1%
.Machinery	11.1%	.Machinery	20.8%
.Transport equipment	4.4%	.Transport equipment	11.1%
.Sundry	2.9%	.Sundry	6.6%

TABLE 4.3 SOME INTERNATIONAL COMPARISONS 1987

	total area (thous. sq.km)	popu lation	total active populat	employ ment in prim sector % total	unem ploy rate	GDP billion usd
AUSTRALIA	7686.8	16249	7623	6.1	8.0	197.1
AUSTRIA	83.9	7575	3385	9.0	3.8	117.7
BELGIUM	30.5	9838	4203	2.9	11.3	138.5
CANADA	9976.1	25803	12869	5.1	9.0	414.2
DENMARK	43.1	5123	2806	6.7	8.0	102.0
FINLAND	337.0	4932	2568	11.0	5.3	88.0
FRANCE	547.0	55627	23908	7.3	10.8	873.7
GREECE	132.0	10015	3887	28.9	8.0	47.0
HOLLAND	37.3	14671	5380	4.9	12.8	214.8
IRELAND	70.3	3552	1302	16.0	18.8	29.0
ITALY	301.2	57331	25540	10.9	10.8	794.4
JAPAN	372.3	122091	60200	8.5	3.0	2379.3
LUXEMBURG	2.6	368	166	4.2	1.5	6.2
NEW ZEALAND	268.7	3279	1398	11.1	6.0	35.9
NORWAY	324.2	4184	2128	7.2	2.3	83.0
PORTUGAL	92.0	10300	4444	23.2	7.9	36.1
SPAIN	504.8	39012	13781	15.6	20.8	287.2
SWEDEN	450.0	8399	4386	4.2	2.0	159.2
SWITZERLAND	41.3	6573	3245	6.5	0.8	170.9
TURKEY	780.6	50923	18482	57.1	15.3	66.5
UNITED KINGDOM	244.8	56887	27859	2.6	10.8	661.0
UNITED STATES	9363.1	243773	117841	3.1	6.3	4436.2
W. GERMANY	248.6	60998	28024	5.3	8.0	1118.8



(cont)

	GDP per capita (USD)	exports of goods (USD)mio	imports of goods (USD)mio	inflation rate average 82-87
AUSTRALIA	12084	22541	23919	7.3
AUSTRIA	11254	27086	32577	3.1
BELGIUM	11276	82848*	83012*	4.3
CANADA	16105	94394	87583	4.5
DENMARK	13030	25661	25510	5.1
FINLAND	12050	20005	19849	5.7
FRANCE	12218	142849	157220	5.7
GREECE	6224	5644	11339	19.3
HOLLAND	11809	92597	91068	1.7
IRELAND	6903	15999	13605	6.3
ITALY	11406	116086	124682	9.1
JAPAN	12339	231332	150931	1.5
LUXEMBURG	14070	82848*	83012*	3.8
NEW ZEALAND	10311	7196	7237	10.3
NORWAY	14956	21482	22576	7.0
PORTUGAL	5868	9167	13424	18.7
SPAIN	8065	33979	48647	9.1
SWEDEN	13111	44521	40709	6.7
SWITZERLAND	...	45250	50410	2.4
TURKEY	3927	10278	14009	42.9
UNITED KINGDOM	11498	130492	153638	4.6
UNITED STATES	17324	252866	405900	3.5
W. GERMANY	12741	293790	227258	1.7

\*Benelux

Source:OECD

The Portuguese economy is one of the EC's less developed and with greater sectorial disequilibriums and discrepancies. The agricultural sector, for example, has a contribution to the GNP of approximately 9% and employs 22% of the active population (see table 4.2); this sector also registers heavy trade deficits (60% of food products are imported). This sector suffers from a low degree of mechanization and from a lack of training for the workers. Also the service sector, despite being the one preferred by foreign investment\*, still presents a small importance when compared to most EEC countries, as it accounts for only 51% of the GDP and employs 43% of total active population, being the tourism industry, which employs 3.5% of total work force and contributes with 7% of the GDP the most important of this sector.

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\* (about 65% of foreign direct investment is made on this sector and of those 65% one third is made in the banking business turning this activity the most attractive to direct foreign investment).

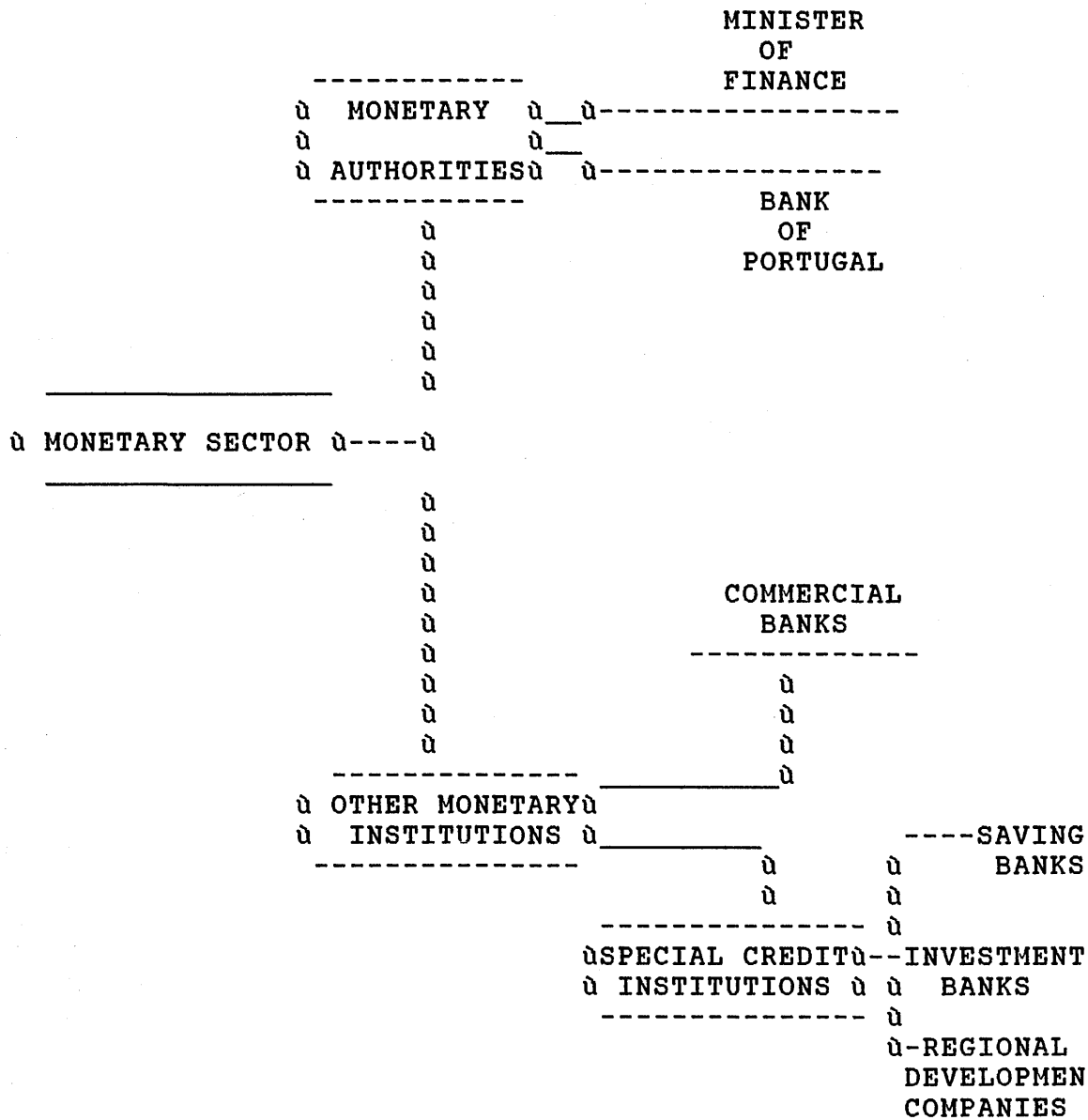
#### 4.2 - THE FINANCIAL SYSTEM IN PORTUGAL

The banking system has been the main support of the financial system in Portugal, being since 1974 firmly regulated and consequently non competitive. In the last years, however, the Portuguese financial system has accomplished significant structural changes which have led to both a growing number of participants and a progressive liberalization in the operating rules of the monetary, financial and exchange markets. This was a process initiated in 1984 with the opening of the banking system to private banks, as well as a liberalization of some of its working rules in order to meet the Community practices in this domain. Associated to this process, new financial institutions have been created and some new financial instruments have been created. The Portuguese financial system shows now a more diversified structure with several kind of institutions in its composition.

Table 4.4 provides an overall view of the system, in which the institutions are grouped in harmony to their main expertise.

TABLE 4.4

THE FINANCIAL SYSTEM IN PORTUGAL - DIAGRAMMATIC STRUCTURE  
 SHOWING RELATIONSHIPS OF VARIOUS INSTITUTIONS



(cont)

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 THE NON-MONETARY SECTOR
 

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EASING OF CREDIT----	INVESTMENT COMPANIES
	LEASING COMPANIES
	FACTORING COMPANIES

SHARE PURCHASING-----	VENTURE CAPITAL COMPANIES
	COMP. FOR ENTREPRENEURIAL PROMOTION

FINANCIAL INTERMEDIATION -----	MONEY MKT INTERM COMPANIES
	BROKERAGE COMPANIES
	BROKERAGE FINANCIAL COMPAN.

OTHERS -----	INSURANCE COMPANIES
	REAL ESTATE MANG. COMPANIES
	PORTFOLIO MANG. COMPANIES
	INVESTMENT FUNDS
	PENSION FUNDS

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Within the institutions legally empowered to create means of payment (the monetary sector), there are, the monetary authorities (the Minister of Finance and Bank of Portugal) which have the responsibility of issuing currency and holding foreign reserves; these are also the two institutions that control the monetary policy and the monetary system.

The other monetary institutions, commercial banks and special credit institutions, correspond to the banking system. Within the banking system, commercial banks play a predominant role in terms of raising funds and providing credit, although they are mostly oriented to the acceptance of deposits and the granting of short and medium term credit. The supply of medium and long-term credit has been an activity performed by the savings and investment banks, which, according to their regulations, are particularly oriented towards the collection of more permanent funds.

In the future financial environment this kind of distinction between investment and commercial banking will be much more a result of the characteristics of the resources and applications in the balance sheet of the particular institution than the application of a special legal framework.

The most recent Portuguese legislation has been progressively adopting a global and universal model, rather than an institutionally specialized one.

The commercial banks include eight state owned banks and fourteen private banks, of these only three were in operation before the banking industry was reopened to the private sector in 1984 (Banco do Brasil, Credit Franco-Portugais and Lloyds Bank). Of the private banks created since 1984, six are branches of foreign banks: Barclays Bank, Banque National de Paris, Chase Manhattan, Citibank, Manufacturers Hanover and the Societe General; the remaining four are domestic private institutions: Banco Comercial Portugues, Banco Comercio e Industria, Banco Internacional de Credito and Banco Internacional do Funchal.

The investment banks were expressly created for the granting of medium and long term credit. Only two of the institutions presently operating fall into this category: Banco de Fomento Nacional, whose main purpose is the financing of projects for national economic and social development and Banco Portugues de Investimentos, formerly an investment company that has been operating as a private bank since 1985.

On the other hand, savings banks constitute a group of institutions which carry out a diversified range of functions. This group includes Caixa Geral de Depositos, the largest Portuguese credit institution, and Credito Predial Portugues. Both have played an important role in attracting small scale savings and in financing other institutions, mostly the former that generally finances specific forms of investment, mainly in the construction sector.

Besides savings and investment banks, there are special credit institutions designed to encourage development in the regions in which they are located by providing financial assistance, promoting productive investments and deliver other several related services, they are known as the regional development companies.



The non monetary financial sector comprises several institutions of a differentiated nature.

First, there are the non-banking credit institutions which include investment companies, leasing companies, factoring companies, and also a number of parabanking institutions, some of them created by state initiative as UNICRE\* (the responsible institution for credit cards issuing), IFADAP (financing and supporting agricultural and fishing activities) and SIBS (interbanking services related with EFT).

Secondly, there are the institutions which attract savings in several forms mainly for application in the capital market and those institutions which are mainly oriented toward the creation of new companies and finally those which act as intermediaries within the different markets - insurance companies, real estate investment funds, securities investment funds, money market intermediary companies, brokerage companies and brokerage financial companies.

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\* see chapter 5, credit cards.

The changes already experienced by the Portuguese financial system had several and different phases.

The first phase was characterized by the emergence of institutions oriented toward the financing of productive activity: investment, leasing and factoring companies.

This was to a great extent a banks strategic decision as a reaction to the credit ceilings imposed by the monetary authorities on the credit institutions already operating. This is an explanation for the fact that so many of these new companies were created by commercial banks.

In a later phase, and following a strategy of revitalisation of the capital market, there was an important and expressive increase in real estate and securities investment funds, and also but to a lesser extent in pension funds. For some time, the creation of these funds was supported by various fiscal incentives. Also the commercial banks have played an important role in this process especially by promoting and selling this participation units with their clients.

The next phase is expected to be concerned with the creation of more specialized financial intermediaries.

The government, facing the need to support the capital market with a greater flexibility and a wider range of

operations, and recognizing the need for greater professionalism among market operators, has recently defined the legal framework of brokerage companies and brokerage financial companies in line with the relevant and respective European Community laws. At the same time, in face of the strong development of the exchange market as a result of the opening measures adopted in the last few years, the government has also decided to allow money market intermediaries to operate in this market. Prior to that the activity of these institutions was restricted merely to the domestic money market.

At the level of new financial products the government was also the first to create several new instruments in order to finance the budget deficit that until 1985 was dependent of bank credit. Thus were created the Treasury Bills in 1985 and more recently 'Family Treasury' bonds, a short term bond, and also several medium term Treasury Bills.

In extension of these public debt financial instruments, some other innovations include the creation of CD's - certificates of deposit, the issue in 1988 of convertible bonds, the creation of the legal framework of bonds with warrants and de-materialized shares and the creation of investment funds.

The first investment fund to operate in Portugal was launched in 1986 and despite the emergence of a few others until 1988, they have continued to be of small importance in terms of Portuguese capital market. In 1989 however, investment funds started to erupt as 18 more started to work along with the existing 11; another 6 have already started operating in 1990 and 8 more have been authorized to initiate their activity. Most of these 35 investment funds currently operating in Portugal initiated their activity less than a year ago, and so it is perhaps too early to estimate their management performance. The total funds managed by these funds is in Portugal of 272,722 million escudos distributed as follows:

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SECURITIES OPEN-END FUNDS		80.0%
SECURITIES CLOSED-END FUNDS		6.2%
REAL ESTATE OPEN-END FUNDS		12.2%
REAL ESTATE CLOSED-END FUNDS		1.6%

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source: BPA

Of all the closed-end funds only one has been admitted to official quotation.

According to the law, at least 25% of the portfolio of securities fund's must be constituted by public debt, and there is a limit of 20% of total assets for the acquisition of shares listed in foreign stock exchanges. In spite of this restriction, investment funds have been continuously specializing in different market segments like bonds management, cash assets, corporate stock and foreign securities. Yields of investment funds have, however, been strongly affected by the negative performance of the stock market because the climate of confidence in the stock markets was removed as a consequence of the events of the October crash of the New York Stock Exchange. Prices of all securities fell and investors gradually moved away from this kind of investment. There are some other domestic causes being repeatedly indicated by the financial experts as main reasons to the negative evolution performed by the Portuguese stock exchanges (Lisbon and Oport) since the end of 1987. Thus the unsustainable level of most share prices, the inexperience of most investors, the disordered increase in the supply of securities and the marked scarcity of regulation and technology within this market are some of internal reasons for small importance and performance accomplished by this market in Portugal. To improve the efficiency of this markets, some new rules were introduced in the functioning of the stock exchanges, namely the listing of corporate shares and settlement systems, being

some of the results already felt by the end of 1989 with a more dynamic performance of the market when 4 state owned companies were privatised and it was also the period when share prices started to recover from the effects of the 1987 crash. Also some companies were, during 1989, excluded from official quotation as they failed to fulfil some new listing requirements, namely when concerned with liquidity. The legislators are now analysing the probability of the creation of a second market intended to provide more flexible conditions for the listing on the stock exchange for small and medium size companies.

There is presently in the Portuguese parliament a discussion of a new legislation where the privatisation of national bourses is proposed, the management of these would be carried out by non-profit making organizations made of brokers and other financial institutions, being the supervision and control of the market responsibility of an autonomous body monitored by the Ministry of Finance.

This new legislation is also concerned with the punishment of inside trading and price manipulation practices, which are expected to become more closely surveyed by the authorities. A unified computerised system will soon be implemented to allow a continuous dealing. The introduction of new and more sophisticated financial products as futures and options is being foreseen for a near future.

The accomplishment of the privatisations plan for the current year will certainly inject foreign capital into the market that has been traditionally very attractive to foreign investors.

A gradual process of liberalization and deregulation has also taken place in the foreign exchange market, namely with the beginning of the spot operations in 1985 and forward operations in 1987. With the creation of the latter, Portuguese importers and exporters gained new protection against exchange rate fluctuations, but are still prohibited from carrying out purely speculative operations. In addition, since October 1987 the Banco de Portugal ceased to fix unilaterally the exchange rate of the Escudo with the main currencies, this has resulted in daily <<fixing>> sessions with all the concerned monetary Portuguese institutions buying and selling foreign currencies between themselves with the prices given against the escudo. This process requires the institutions to close out their position each day for each currency. The final rate for each currency becomes the quoted rate for the next 24 hours. Banco de Portugal and the Minister of Finance still intervene in this process in order to ensure the achievement of foreign exchange and monetary policies targets.

The liberalization of the financial system also led to a reduction in the number of administered rates.

The future prospects for the financial institutions in Portugal are good, there is still a lot to do but the process of recovery has already started. Portugal is aware of the complex problems facing its financial system with the aggravating of the integration into the single market and so, it was recently created The Council for the Financial System - 1992, a consulting institution to the Ministry of Finance, this council will contribute to the definition of adequate monetary policy orientations and the framing and modernization of the financial system at the monetary, financial and foreign exchange levels.



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5 - BANKING IN PORTUGAL

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- 5.6 - Some structural banking problems
- 5.7 - The Multibanco system

## 5.01 - INTRODUCTION

This chapter contains an analysis of the Portuguese banking system. This is probably the most important and relevant part of the research work on Portugal. The information and analysis outlined, is of major relevance when conclusions are to be made.

Most of the information presented was obtained through unstructured interviews\* with managers and with staff from different hierarchical and functional levels in different Portuguese banks.

The chapter begins by focusing on the most important conditions and steps to be performed and achieved in order that a bank license can be obtained.

There is a discussion of both legal limits to the banking and to the most important and recent information on the market deregulation, in particular the abolition of credit ceilings that had persisted for several years.

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\*Once more, a word of gratitude for those that in the banks, gave some of their time and knowledge, so important and essential in this chapter's elaboration.

This change, that took place in the month of May 1990 , was a desired and expected measure that will certainly transform the whole industry.

Some of the most important and recent cases concerning the Portuguese financial system and banking environment are also reported. In particular the description of several banks strategies both Portugueses and foreigners that confronted with the new environmental conditions have initiated a large number of strategic moves.

This chapter also includes the identification of some fundamental structural problems that banks, in particular state owned are facing. These problems will be very important conditioning variables in their future strategies (see chapter 8).

The last section of the chapter makes reference to the Multibanco system - the Portuguese EFT system.

It is important to see this chapter contents as a natural continuation of the analysis made and information reported in the previous one.

Almost all the information given in chapter 4 is implicit and used in this chapter.

table 5.1

## THE BANKS IN PORTUGAL

1989

## |BANK OF PORTUGAL|

COMMERCIAL BANKS		SPECIAL CREDIT INSTITUTIONS		
STATE OWNED banks	PRIVATE banks	INVESTMENT banks	SAVINGS banks	REGIONAL developmt companies
B.Borges Irmão	B.Comercial Portugues	B.Fomento Nacional	Caixa Geral de Depositos	
B.Comercial dos Acores	B.Comercio e Industria	B.Portugues Investimentos	Credito Predial Portugues	
B.Espirito Snt Comerc Lisboa	B.Internac. de Credito		Cx Economica de Lisboa	
B.Fonsecas & Burnay	B.Internac do Funchal		Cxs de Credito Agricola Mutuo	
	B.Brasil			
B.Nacional Ultramarino	B.Nationale de Paris			
B.Pinto & Sotto Mayor	Barclays Bank			
B.Portugues do Atlantico	Chase Manhattan			
B.Totta & Acores				

(cont)

Uniao Bncs  
Portugueses

Citibank

Credit franco  
Portugais

Lloyds Bank

Manufacturers  
Hanover

General Bank

## 5.1 ACCESS TO BANKING

Decree-laws 23 and 24 of February of 1986 fixed the procedures for the opening and functioning of credit institutions in Portugal as well as on the opening and operation of offices and branches of foreign credit institutions. These two decree-laws were already influenced by the directions set by the European Community banking laws.

According with the principles of home country control and non-discrimination, the membership of Portugal into the EEC is going to result in the elimination of restrictions on the establishment and operation of banking institutions from EEC countries in Portugal. However under the terms of the Portuguese treaty of adhesion, until the end of 1992 both the establishment of new credit institutions in Portugal and the opening of new branches or offices of EEC institutions already in the market will be conditioned by the criteria of market economic needs.

The authorization of establishment of credit institutions in Portugal, takes place on a case by case basis, via legal order signed by the Prime Minister and the Minister of Finance, after consultation with the Bank of Portugal. Nowadays, for a credit institution to receive a banking

business authorization it must meet certain economic and financial requirements at national, regional and local levels, and has to fulfil the following requirements:

- 1- take the form of a joint stock company (limited liability share company)
- 2- to have a minimum capital of 2.5 billion escudos, 80 % of which must be of registered shares
- 3- the board of directors must have at least five members, of recognized capabilities and experience and fully empowered to manage the company.

If the promoters are nationals from non-member states, they must also be submitted to the rule that at least 75% of the staff must have Portuguese nationality. In this case, the legal license cannot concede them a more favourable treatment than the one reserved to member state institutions.

Foreign managers must be able to speak Portuguese.

The capital and reserves of branches and offices of foreign institutions are to secure only the operations performed in Portugal and can not be less than the minimum required by Portuguese law (2.5 billion escudos). Foreign credit institutions established in Portugal have been subjected to the Portuguese legislation that regulates their activity in



the monetary, financial and foreign exchange markets concerning all operations related to Portugal.

### 5.1.1 - Activities permitted to the banks operating in Portugal

According to the regulations banking activity can make use of two types of operations: the acceptance of deposits and supply credit to individuals and corporations. These include the granting of credit in the short, medium and long term. The long term lending has in Portugal a maximum of ten years, excepting for the housing and regional development credit which have a maximum term for credit of twenty five years. The banks are also authorized to render services such as the transfer of funds, custody of valuables, intermediation in payments and management securities portfolios.

Banks can underwrite shares or bonds, issued by companies. Banks can also buy, on an individual basis, the shares of any company up to one-fifth of the paid-up capital of the company or one-third of total bonds issued by the company, but subject to an upper limit which is the sum of their retained profits or 20% of their share capital. These limits can only be exceeded with the government authorization after consulting the Bank of Portugal.

The Portuguese banking legislation permits the banks to perform a very wide range of activities, and in that respect

it reflects a modern outlook when compared with other countries.

The limits and restrictions on the banks and other financial institutions' activities have been of a different nature.

In order to satisfy macroeconomic goals, namely monetary policies, the banks were in 1974 nationalised and have since then been used as state instruments and consequently deviated from a competitive market environment.

## 5.2 LIMITS TO BANKING

The banking activity has been subjected to several types of restrictions, some to guarantee the liquidity and gearing of the institutions and consequent protection of savers interests, while others have been acting more as direct instruments of monetary policy.

In fact, as it was seen in the previous chapter, there was a considerable number of restrictive measures to the banks' activities following the late 1970's. Thus the banks faced tight controls on the supply of credit, through credit ceilings and interest rates control, as well as traditional monetary control instruments - minimum legal requirements and rediscount limits.

As a result, the banks accumulated liquidity in excess, and the difference between active and passive rates has been extremely large. This situation was unattractive both for depositors and lenders. On one hand the deposits both time and demand, have been reward by negative real return rates, because inflation since 1974 until the first half of the 1980's was always greater than the interest rates paid on deposits.

On the other hand those who need credit have been paying very high prices in order to compensate for the unused part of the banks funds that the central bank through credit control did not permit to be lent. These were the main causes for the existence of a large amount of unused funds within the banks.

In order to compensate the banks, the Bank of Portugal created in 1985 the InterBank Securities Market. The Bank of Portugal placed part of its portfolio of public debt securities with the banks, enabling them to obtain a better return on the excess funds that by law they could not lend.

### 5.2.1 - Portfolio requirements

When it concerns the portfolio of credit institutions, excepting the investment banks, the legislation stipulates that they must contain an amount of government bonds or state guaranteed bonds of at least 5% of the total domestic and foreign exchange deposits; the banks must also value these securities at their purchase prices.

Commercial banks are not permitted to grant credit to a single borrower in excess of the sum of 10% of the banks' equity and retained profits, and 1% of domestic currency deposits. To concede medium and long term loans, commercial banks can only use the following funds:

- time deposits over 180 days,
- credit conceded by foreign credit institutions or with Portuguese special institutions (see table 5.1), with adequate maturities,
- funds raised by bond issues, authorized by the Minister of Finance,
- any other funds obtained in domestic or foreign markets, under conditions compatible with the applications to which they were collected.

In the case of housing loans for purchase, construction, repairing and improvement purposes, banks are allowed to allocate the following funds:

- share capital and retained profits or corresponding funds,
- the result of bond issues with a minimum maturity of five years,
- foreign credits with maturities of not less than five years,
- funds from savings accounts for housing purposes,
- 10% of the balance of time deposits of over one year.

5.2.2 - Bank of Portugal participation in the banking system

Because the Bank of Portugal is responsible for the conduct and control of the monetary and financial policy, it is taking part and evaluating the functioning of these markets mainly by:

- 1- fixing discount rates and other rates linked with the central bank's operations,
- 2- defining the qualitative and quantitative criteria of credit operations,
- 3- determination of the composition of cash and other liquid assets as reserves and the minimum proportion of these to the corresponding liabilities (reserve requirements),
- 4- setting the administration of interest rates; since September 1988 only of the official discount rate and of the maximum rate for deposits at more than 180 days and up to one year\*.
- 5- defining the operating rules on gold and foreign exchange operations,
- 6- setting the amounts of gold and foreign exchange assets that the institutions authorized to deal in foreign currency are entitled to hold.

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\* These also are expected to be eliminated with the reform of the monetary control instruments.



In recent years, however, some steps have been taken towards the liberalization of the market operating rules, but the activity of credit institutions will still be subject to the supervision and co-ordination of the Ministry of Finance and the Bank of Portugal for some more time.

### 5.3 RECENT DEREGULATION

During the final period of this research work, the credit ceilings were removed\*. This measure is expected to transform the whole system and approach it to the European Community practices.

The Bank of Portugal will control the money supply and interest rates, by open market operations as it is common in the most developed economies. The Central Bank will, thus, purchase or sell securities, increasing or reducing the liquidity in the markets. The Bank of Portugal can as well, in order to control money supply and interest rates, use a more traditional and passive approach - the level of required reserves.

Apart from its participation in the markets, the Bank of Portugal is also expected to transmit to the banks, several indications on credit growth rhythm.

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\* This measure was announced in the 1st of May 1990.

From the banks point of view these legislative changes are going to require more responsibility, in particular when concerned with funds applications - the asset side of the balance sheet. This measure is also going to bring a totally different kind of competition between banks, in particular in the retail business, in order to attract individual and corporate accounts. From now on, the amount that each bank can lend is not any longer to be defined by the Central Bank but is going to depend on the relation between assets and liabilities, their level of liquidity, and reserve requirements.

The credit ceiling abandonment side by side with interest rate liberalisation, - before fixed at 4.33% for demand deposits - is expected, in a first phase, to provoke the appearance of the <<super-accounts>> - demand deposits with higher interest rates, dependent on the average balance levels (to a higher balance average corresponds a higher interest rate).

Until now it was not profitable for banks to accept deposit accounts. The credit granting capacity was determined by the Bank of Portugal, not by the level of deposits thus, deposits in excess of the requirements for the credit backing were unprofitable.

Now the level of credit that each institution is going to supply will be dependent on its level of liabilities.

An interest rate 'war' will start. In particular banks in the retail business will need to gain deposits in order to gain market share.

For the banking business in Portugal, this form of competition which has been experienced in the most developed financial centres in the world, is only now going to emerge. From the borrowers point of view there are going to be significant changes. From a situation in which credit was almost impossible to raise, there will be from now on, a considerable competition among banks to supply credit. Furthermore, without credit ceilings both the marketing and financial departments of the banks, will start looking for projects with a financing requirement.

The price of lending is going to depend on the aggregate risk of the projects.

A higher risk leads to a higher interest rate to be paid.

From the banks point of view risk will be influenced by:

- project cash-flow,
- the term of the loan,
- amount of the loan,
- loan equity in the total amount of the project.

Some observers affirm that credit denominated in a foreign currency will continue to be advantageous, namely for the large corporations and economic groups that are also able to perform good foreign exchange management.

#### 5.4 DREXEL BANKRUPTCY; ITS IMPLICATIONS WITH PORTUGAL

The recent bankruptcy of Drexel Burnham Lambert, the one time junk-bond king of Wall Street, proved how inexperienced and inattentive the Portuguese monetary and financial systems and those responsible are.

The Economist in its edition of the last 17th of March calls this present situation <<the fool's gold>>.

The Portuguese Central Bank in order to maximize returns on gold reserves stipulated that to a maximum of 20% of gold reserves would be placed in foreign institutions.

Bank of Portugal, by obligation, a conservative institution, placed gold with a value of 18 billion escudos, approx £ 45 million, with Drexel, a high risk Wall St investment company. Gold leasing involved passing title to the metal (in this case unsecured) to Drexel in return of a fixed rate of interest - anywhere between 0.5% and 2.5%. The Drexel attitude in this kind of business, was to sell immediately the gold in the spot market and rebuy it, in the futures market (delaying the duty of paying it). It had to pay Bank of Portugal the interest rate, and had to pay the future contract expenses (approx 2% of the total amount).

The remaining 96% were used to make, during one year, applications in the <<junk bonds>> market at rates most of the time over 15% .

Bank of Portugal may not see its gold again, nor the equivalent cash.

The Economist refers to the fact that banks like Salomon Brothers, Morgan Stanley, Goldman Sachs, Citibank and Bankers Trust, as well as leading German and Japanese institutions use gold leasing as a cheaper way to raise money than issuing commercial paper at 7 - 8% .

Banco of Portugal could have choose a safer institution to place its gold. It is totally impossible at this stage to examine the reasons why this investment was made in such conditions. The final investigation may reveal why, when all the world already knew, for almost one year, that this kind of investment institution was facing immense financial difficulties, the Bank of Portugal did not claim its gold deposits on time.

## 5.5 SOME PRESENT STRATEGIC MOVES

The recent transformations in the Portuguese economic and financial environment are bringing new life and interest to the Portuguese financial scene. The most important and relevant factors are the Portuguese membership of the European community and the privatisation of a large number of public companies. In the banking system the factors in evidence are the privatisation of a very important public bank - Banco Totta & Acores, and the plans for the privatisation of some more public banks, which are the most important in Portugal when measured by size of assets, number of branches and market share. Factors such as the abolition of interest rate controls and the abolition of credit ceilings have also contributed to the increase in the acceleration rate of transactions, negotiations and news from the banking system, as well as the number of interested parties participating in the markets.



### 5.5.1 - Some particular cases

Banco de Santander since last February, controls 75% of Banco de Comercio e Industria - one of the new private Banks, after buying 4.000.000 shares from a Portuguese economic group.

The ABN Bank, of Dutch origin, opened a branch in Lisbon and intends to focus its business on Portuguese corporations operating in export and import business. This Bank also informed that is planning to take an important position in a Portuguese Bank, with a national branch network already established, and to be privatized. This bank also informs that is going to bring to Portugal investment from several countries, namely the Netherlands, Sweden and Denmark. The main innovation of the ABN Bank for the Portuguese markets, as its promoters advertis, is going to be in the speed of operations.

Waiting for the Bank of Portugal's final decision, is a Bank project from two of the most important Portuguese business men - Mr. Americo Amorim and Mr. Horacio Roque. This new institution will if authorized, focus on the supply of home mortgages and on construction projects financing. This project institution claims that it is going to introduce several new financial products that will promote long term

savings in order to finance home credit with medium and long term resources.

The Hispano Americano SA, an investment society has demanded the Ministry of Finances authorization to be turned into an investment bank with a capital of 3.5 billion escudos.

The first conversion of this kind happened in May 1990; from the 2nd July 1990, MDM - Investment Society, will become the Deutsche Bank Investimentos, a Portuguese credit institution totally controlled by the Deutsche Bank (6th in the World ranking and 2nd in the European). This new bank besides ensuring the activities already performed by the investment society, is going to do business in the foreign exchange market and launch closed end investment funds. As well, it will manage personal fortunes and portfolio management.

This bank informs that is going to bring to Portugal foreign investment and proposes to help Portuguese corporations to find business opportunities abroad.

There are several banks that have proceeded to capital increases, thus, Banco Comercial Portugues the first and most important comercial private bank and the most dynamic private commercial banks increased its capital from 3 billion to 6.6 billion escudos.

One of its managers told the Banker Magazine that BCP is trying to offer the same expert advice and service that the foreigners from Zurich and London are providing. The Banker also refers that a foreign banker and closer observer of the Portuguese market agrees with the idea; he said about this new and innovative bank: 'If BCP runs a retail strategy it should be able to compete. They know this place and while a foreigner can get to know it well, it would have to be very sharp to beat them and others such as BESCL on the retail side'; the same observer also warns that: 'on the wholesale side, no question. If you have the capital then you can beat them (Portuguese Banks) at any time'.

Banco Pinto e Sotto Mayor one of the oldest Portuguese credit institutions, actually a state-owned bank, is going to increase its capital from 20 billion escudos to 26 billion; this bank has a network of twenty two branches in France, one in Macau, one representative office in London and another in Lausanne and two subsidiaries: one in Newark - USA and the other in Toronto. BPSM established several schemes, namely with the European Investment Bank, for channelling external funds for the finance of investment projects of its customers. In the area of new products and services this bank has launched its own credit card in association with VISA.

This bank believes that the training of staff is now essential. Following a strategy already adopted a few years ago, the Paris branch of this bank will continue to intensify its activities in the French domestic market, without letting up on the relevant business it has developed, both in the field of transferring the savings of the Portuguese community resident in France and in the sphere of providing external finance for investment by Portuguese companies. This branch has launched a new product called Mortgage Lending - Portugal, to assist with financing the purchase of property in Portugal.

Banco Portugues de Investimentos, was one of the banks that proceeded to capital increases. This operation was in BPI from 7.5 billion to 18 billion escudos. This new investment bank is going to increase the number of financial products and services and at the same time will extend its branch network, mainly in Lisbon and Oporto. BPI also wants to take a position in one of the commercial banks to be privatized. At last, this bank that has been the lead financial institution of several privatisations, is trying to develop its international operations department and has started recently an investment programme of 1.5 billion escudos in a new computing system.

Bearing in mind that the future strategy of the bank must be based on adequate support facilities at every level of decision, Banco Espirito Santo e Comercial de Lisboa has intensified its efforts to implement models for the integrated analysis of profitability by product and client, which will provide a more complete management of the factors that determine profitability, Banco Espirito Santo e Commercial de Lisboa (BESCL) one of the most important and antique, presently state-owned bank is going to proceed to an investment in its computing system of 5 billion escudos. The bank also as part of its diversification programme has recently launched a leasing institution. BESCL that is one of the Portuguese banks with stronger presence abroad has a branch in London which plays a central role in supporting overseas trade, and in particular giving support to Portugueses exporters and importers who have turned to overseas finance on their trades. The New York and the Bahamas branches are important complementaries of the London's branch operations. Additionally the bank intends to turn its representative office in Madrid in branch.

Also Banco Portugues do Atlantico, probably the next bank to be privatized, has started a strategy of modernization in order to consummate its strong presence in the market. It demanded in April permission to open a branch in Barcelona in order to complete its Spanish network of branches in

Madrid and Vigo. This bank's London branch was officially recognised by the Portuguese and British authorities as a <<market maker>> in the London escudo market after the recent process of liberalization on the Portuguese foreign exchange market. BPA that has also six branches in France, one in New York, one in Miami, one in Macau and another one at the Cayman Islands, is particularly active in the foreign exchange futures market in particular after obtaining permission for the fixing of exchange rates for buying and selling of foreign currencies against the escudo for up to a year, gaining an important advantage in this kind of market and thus gaining the chance to provide the corporate sector with medium term financing in foreign currency with coverage of exchange rate risk against the escudo. Great improvement was also achieved by this bank in the services provided to Portuguese emigrants. The consequent capture of an important share in the market of emigrants' remittances, achieved through increased efficiency and greater speed in the transmission of data relating to transfers from various European countries and the USA, as well as a special improvement in the quality of the service for the transfer of retirement pensions, paid by the French social security system to Portuguese ex-emigrants in that country.

BPA is worried about the levels of qualification of the staff working in particular at the points of sale. Thus this bank intends to implement several programmes in order

to raise better qualification levels.

Banco Fonsecas & Burnay one of the state-owned commercial banks advertised that the strategy for this bank's development will be channelled through three main factors:

- human and material resources rationalization and recondition,
- total informatization of the institution,
- develop a global and universal strategy with the introduction of new financial products to be supplied by this bank branch network, namely, insurance, leasing, home mortgage, other goods loans, factoring and portfolio management .

In general, the investments that the banking institutions are conducting, take place, mainly, on the introduction of new technologies in communications and computing systems that will permit an increase in the number of financial products, direct a more professional service to the different segments of market that will probably emerge, and in the end, a better and more competitive performance. At present, for example, it costs five times less to make a money transfer from an account in Caixa Geral de Depositos' - the biggest Portuguese financial institution - to an account in the UK, using VISA than doing it directly with CGD.



## 5.6 SOME STRUCTURAL BANKING PROBLEMS

The first and probably most important of the problems facing banks in Portugal, is related to personnel. Generally, with the exceptions of foreign and the new private banks, Portuguese banks have an excess of personnel which under the Portuguese law cannot be dismissed. This problem is exacerbated by their lack of qualification and efficiency. This situation, that will probably not be solved in the short run, is responsible for the typical non-professional, bad and inefficient treatment received at most of the bank branches and by the majority of bank employees (evidence of this fact will be shown in chapter 7).

A state owned bank branch, during the opening hours is a place full of people and endless queues; generally each queue has its own function so a customer can loose days running to a bank trying to solve the most simple problem. Very recently a friend waited one hour in a bank queue with only three persons in front of him. This example is in Portugal repeated thousands of times every day. This kind of problem is one of the biggest challenges, in particular for banks that raise funds in the retail business.

Another serious and common problem of the Portuguese banks is related with the lack of capital. The solvency ratio of the Portuguese banks ( ratio of self capitals to assets) was in 1987 and 1988 under the demanded value by the Community to financial institutions after 1992. The data published by the Portuguese Banking Association (APB) indicates that for 1987 and 1988 the gearing ratio for the Portuguese banking industry was 4.95% and 6.2% (see table 5.2) when the Community directive demands for a minimum of 8% .

A sectorial analysis reveals a much more complex situation.

table 5.2

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**SOLVENCY RATIO FOR THE BANKING INDUSTRY IN PORTUGAL**

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	1987	1988
Commercial banks	4.22%	5.43%
State-owned banks	4.49%	5.17%
National private banks	8.71%	13.17%
Foreign banks	12.10%	15.07%
Investment banks	6.20%	7.65%
Total	4.95%	6.22%

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source: APB

It is evident from the table that the state-owned credit institutions must make the biggest effort. The privatisation process can, however, help to solve this problem. Privatisations can increase the capital of the present state - owned banks if cash inflows are generated by this process.

At least it is important not to forget that Portuguese banks are not accustomed to participating in a competitive market. They soon will be. This is reason enough to prepare, in order to avoid unpleasant surprises.

## 5.7 THE MULTIBANCO SYSTEM

Multibanco is the name for the most important Portuguese EFT system and ATM's network. This system was born of an association of eleven credit institutions (Banco Borges & Irmao, BESCL, Banco Fonsecas e Burnay, Banco Nacional Ultramarino, Banco Totta e Acores, Banco Pinto e Sotto Mayor, Banco Portugues do Atlantico, Caixa Geral de Depositos, Credit Franco-Portugais, Lloyds Bank and Uniao de Bancos Portugueses), then in 1987 Banco Comercial Portugues joined the system and finally at the end of 1988, Banco Comercial dos Acores, Banco Comercio e Industria, Banco Fomento Nacional, Banco Internacional de Credito, Banco Internacional do Funchal, Banco Portugues de Investimentos, Caixa Economica Acoreana and Montepio Geral joined the system, representing now 98% of the total banking market.

Each bank has representations in Sociedade Interbancaria de Servicos (SIBS- the management society of the Multibanco system) administration. Since September 1985, when it was first started the Multibanco system has already approx 2.000.000 debit card users which have access to the ATM and POS network. At the beginning the ATM's were used exclusively to cash withdrawals and balance information, but the ATM network is now permitting new operations of which the most important are the payment of services ( eg.

electricity, telephone, taxes, insurance, tickets and goods order). Each bank can always ask for new operations, available for its clients. The number of ATM's has in Portugal been growing since 1985:

	1985	1987	1989
number of ATM's	71	163	550

This number still is very small in Portugal where there are approximately 60 ATM's for each million of persons when for example in Spain this indicator is 250.

Agreements permitting compatibility of systems exist between Multibanco, the Spanish network 4B, the Belgium network MisterCash, with EACHA (European Automated Clearing Houses Association) and with project MERCHANT (Methods in Electronic Retail Cash Handling Using Advanced Network Technologies).

The EFTPOS started in February 1987, is today an usual paying method in especially in the big urban centres, at petrol stations, supermarkets, hypermarkets and superstores - the utilization of this service is now around 300.000 movements per month.

This is the beginning of a cheque and cashless society in

which all the payments will be made by electronic funds transfer; it is still far from that, 80 to 90 percent of transactions are still using cash, but with the gradual expansion of the number of possible operations and the expansion of the network to other commercial establishments, that time will come. The incontestable benefits of this payment system have made it very attractive, eliminating for the customers the necessity of cash and representing for the merchants total payment insurance thus simplifying administrative work and reducing the transport and handling of money, also corresponds to immediate bank account credit.

With these conditions, an opportunity for a better fiscal system emerges. The argument is that with every bank account connected to a corporation or individual fiscal number, and with all money transactions made through a bank account, for example by EFT, every transaction would then have, for fiscal purposes, a debit unit and a credit unit.

If the banking system was compulsorily linked to the individuals and corporations fiscal number the perfect control system would be reached. This improvement side by side with the EC tax system harmonization will bring a safer, accurate and fair system - where also the individuals, not only corporations, would have an official profit and loss account. Through the banking and financial

system, societies can easily experience this kind of direct fiscal system and control.

This subject will be further discussed in the analysis of questionnaires (chapter 7) but it is not fundamental to the final conclusions and nature of the study.

#### CREDIT CARDS

The utilisation of credit cards is also growing in Portugal. In 1984 the gross volume of sales through credit cards was of 10 billion escudos, in 1988 the same indicator was of 60 billion. The forecast is to be greater than 200 billion escudos in 1992. 90.000 cards were issued in 1984 against 180.000 in 1988; according to UNICRE the issue and management responsible of Unibanco credit cards and representative of VISA, MasterCard and American Express, 500.000 cards will be reached by 1992. This company had the exclusive credit issuing until June of 1988 when Government liberalized that issuing, permitting Banks not only the cards issuing but the credit concession as well.

6 - QUESTIONNAIRES DESIGN



CHAPTER CONTENTS

- 6.01 - Introduction
- 6.1 - Questionnaire 1 introduction
- 6.2 - Questionnaire 2 introduction
- 6.3 - Questionnaire 3 introduction

## 6.01 - INTRODUCTION

Research was done and information was collected on the Portuguese economic evolution, on the Portuguese financial system in general and on the Portuguese banking system in particular. This material has already been outlined in previous chapters. (Chapters 4 and 5)

In addition three different structured questionnaires were used to examine the customer's views on this subject. Customers were divided in individuals and corporate.

No hypothesis were made; questionnaires were used only to observe realities and detect opinions and perceptions from customers both individual and corporate.

These 3 questionnaires are the last information source to be used and are an important complementary to the other points of view and informations already exposed. They are one more factor to improve the level of understanding of the banking and financial business in Portugal.

6.01.1 - Questionnaires to individual customers

Questionnaires 1 and 2 were answered by individual bank customers. Their objective was analysing the reason, kind and frequency of relations with banks and other financial institutions, and the perceptions, expectations and opinions that individuals have of those relations.

These two questionnaires are presented in appendixes 4 and 5.

## 6.01.2 - Questionnaire to corporate customers

Questionnaire 3 was answered by corporate managers. This was the only questionnaire which did not go under control supervision. This questionnaire has for corporate clients the same analysis objectives that questionnaires 1 and 2 have for individual customers. Furthermore questionnaire 3 includes a section where questions\* are concentrated upon the relation between banks and the tax system. In particular when related to tax evasion. The relation between EFT - cashless society, and tax system that was discussed in chapter 5 - in the Multibanco system, was explained to corporate managers that were then asked for opinions on the subject. There are also some questions related with the state bureaucratic apparatus that many observers consider being one of the most important reasons for the slow development of the last two decades in Portugal. It was decided to include a section of questions about this subject to managers so those perceptions could be better known and tested.

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\*Those questions are related with tax evasion possibilities and control through accounts.(see chapter 5, Multibanco)

Although some major transformations have already occurred since the questionnaires 1, 2 and 3 were administered, it is believed that the opinions expressed are still valid.

However if the questionnaires design were made in the present days, some alterations would be made in order to explore the effects of recent transformations.

Further comments on this issue are made in chapter 8.

The three questionnaires that are presented in appendixes 4, 5 and 6 are a translation of the originals that were created and conducted in Portuguese.

## 6.1 - QUESTIONNAIRE 1 INTRODUCTION

The field work of this questionnaire was done by experienced interviewers of Marktest, one of the most important Portuguese market data corporation, during the second semester of 1988. 600 men and women, users of banking services, from 18 to 64 years old were interviewed in localities with more than 5000 residents.

LOCALITY	Numb of INTERVIEWS	Numb of LOCALITIES
Lisbon	250	25
Oporto	100	10
Coast region	150	15
Interior	100	10
TOTAL	600	60

This is possibly the most important and representative of the three questionnaires.

The quotes method was used in order to achieve a representative sample.

Individual bank customers from all over the country, from all age groups and from all socio-economic status are represented in this sample.

## 6.2 - QUESTIONNAIRE 2 INTRODUCTION

The field work of this questionnaire was done by the author of this work and by some students within their Marketing 1 subject of ISCTE's undergraduate 5 years management course - a Lisbon business school, that is the most demanded Portuguese school by first year university students.

78 men and women from 18 to 74 years old, users of banking services were interviewed.

Some of the interviews were done in September 1989 in Estoril and the remaining were done in February 1990 in Lisbon.

This questionnaire has the objective of being a complementary to the former.

Carefulness is necessary in its results analysis, because the size of the sample is approximately 7.5 times smaller than the one of questionnaire 1 and there is a geographic limitation to the Lisbon and Estoril areas.

### 6.3 - QUESTIONNAIRE 3 INTRODUCTION

Some of these questionnaires were conducted by ISCTE's business studies 4th year students during the first months of 1990, and some of the questionnaires were conducted by the author in December 1989; a control supervision to the students data collection participation of this questionnaire, was not realized.

This questionnaire was answered by 40 corporate managers of companies placed in the Lisbon area.

Although some of the questions are not directly related with banking or financial matters it was decided to include those questions and their analysis because some of the answers can reveal important logical support for a greater importance on one hand to the development of electronic funds transfer towards a cashless society and on the other hand for a greater and important banks' participation in the tax system. This distinction will be present in the questionnaire analysis and in the final conclusions chapters. Two special appendixes (A.9 and A.9c) will appear focusing and differentiating this subject.



7 - QUESTIONNAIRES ANALYSIS AND INTERPRETATION

CONTENTS

- 7.1 - Questionnaire 1 analysis and interpretation
- 7.2 - Questionnaire 2 analysis and interpretation
- 7.3 - Questionnaire 3 analysis and interpretation

7.1 - ANALYSIS AND INTERPRETATION OF QUESTIONNAIRE 1

This questionnaire had 600 different respondents divided by 4 regions (Lisbon, Oporto, Interior region and the Coast region). The respondents were also, for analysis purposes, divided by sex, occupation and social status (high, medium and low). The manipulation of this data was performed at Marktest's main office in Lisbon. The statistical method, utilized for analysis and to expose final results was the factorial analysis with vertical percentages in order to show a better image of the different factors concerned. The main results are presented from tables 7.1.1 to 7.1.17.

The first observation and relevant aspect comes out of table 7.1.1. The ten most known banks by individual customers, either by memory or by the observation of a list, are all state owned banks, which have been the most important and biggest Portuguese banks, particularly in relation to market share and number of branches.

An interesting observation is the low level of impulsive knowledge revealed. The maximum level registered was 64% for CGD, the biggest Portuguese credit institution.

An hypothetical explanation for this fact, can be the low or even non-existent level of bank publicity and advertisement.

table 7.1.1

## AWARENESS OF BANKS BY INDIVIDUALS

BANKS	SPONTANEOUS KNOWLEDGE	* TOTAL
	%	%
CAIXA GERAL DEP	64	98
B. ESPIRITO SNT COMM LISBOA	63	96
B. PORT DO ATLANTICO	60	92
B. PINTO E SOTTO MAYOR	59	94
B. TOTTA E ACORES	58	95
B. NACIONAL ULTRAMARINO	56	94
B. BORGES E IRMAO	48	95
B. FONSECAS E BURNAY	46	93
UNIAO BANCOS PORTUGUESES	34	83
CREDITO PERDIAL PORTUGUES	28	78
MONTEPIO GERAL	28	86
B. PORTUGAL	25	86
B. COMERCIAL PORTUGUES	21	56
LLOYDS BANK	19	58
B. FOMENTO NACIONAL	18	78
CRED FRANCO PORTUGAIS	13	48
B. COMERCIAL DOS ACORES	10	37
B. COMERCIO E INDUSTRIA	8	37
B. BRASIL	7	38
B. PORTUGUES DE INVESTIMENTOS	5	28
SOC FINANCEIRA PORTUGUESA	5	21
CITIBANK	4	30
B. INTERNACIONAL DE CREDITO	3	21
CHASE MANAHTTAN	2	13
B. NATIONAL DE PARIS	2	16
GENERAL BANK	2	14
MANUFACTURERS HANOVER	1	11

base: totality of interviews (600 interviews)

\* After a list with all the banks was shown

Table 7.1.2 shows the distribution of current and time deposit accounts between the different banks. 86% of the respondents claimed to have a current bank account.

The level of current account penetration is very similar in all the regions; the highest level was registered in Oporto with 88%, and the lowest level was registered in the interior and coast regions with 83% of respondents having a current bank account.

Greater differences were observed from a social status point of view. The high social status level has a rate of 93% while the lowest has a rate of 73%.

Of those 86% current account possessors, 55% claimed to have the account with Caixa Geral de Depositos (CGD), confirming this institution's leading status in this product market segment. Banco Espirito Santo e Comercial de Lisboa (BESCL) appears as the second most demanded institution for a current account placement with 19%.

The banks market share distribution for deposits (table 7.1.2) has probably suffered some alterations since then, in particular with respect with some of the new private banks that have been particularly aggressives in the last few months.

table 7.1.2

## BANK ACCOUNT'S POSSESSION BY INDIVIDUAL CUSTOMERS

BANKS	POSSESSION OF	
	CURRENT ACCOUNT	TIME DEPOSITS
	%	%
CAIXA GERAL DEP	55	42
B. ESPIRITO SNT COMM LISBOA	19	11
B. PINTO E SOTTO MAYOR	15	10
B. PORTUGUES DO ATLANTICO	14	10
B. TOTTA E ACORES	13	9
B. FONSECAS E BURNAY	9	7
CREDITO PERDIAL PORTUGUES	8	7
UNIAO BANCOS PORTUGUESES	7	3
B. BORGES E IRMAO	8	4
MONTEPIO GERAL	8	7
B. NACIONAL ULTRAMARINO	10	6
B. FOMENTO NACIONAL	1	2
LLOYDS BANK	1	1
CREDIT FRANCO PORTU	1	1
B. COMERCIAL PORTUGUES	1	1

base: totality of interviewees with bank account  
 (86% of total respondents have a current bank account,  
 38% of the total respondents have a time deposit)



With regard to time deposits' possession, there was a rate of 38% positive answer. In contrast to demand deposits, time deposits have a stronger implantation in the Coast and Interior regions (40%), than in the Lisbon and Oporto areas where only a rate of 37% was reached. Although, it is not a big difference, it can indicate several regional differences which the interested banks should identify.

The high social status respondents have a rate of 45% positive answers while the low social status respondents only have a level of 27% among them.

Table 7.1.3 shows the level of abandonment of the services of a particular bank. The total level of abandonment was 5% during the period of 1 year preceding the administration of the questionnaire. It is in the Oporto region that the highest level of abandonment was registered (7%) with the interior region recording the lowest level at (3%).

table 7.1.3

## REMOVAL OF CUSTOM FROM BANKS BY INDIVIDUAL ACCOUNT HOLDERS

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HAVE YOU IN THE LAST YEAR QUIT THE SERVICES OF ANY BANK? (total)	YES
	5%
(if yes, what was the bank?)	

---

B. BORGES E IRMAO	0.9
B. PORTUGUES DO ATLANTICO	0.9
B. FONSECAS E BURNAY	0.6
B. ESPIRITO SNT COM LISBOA	0.6
B. PINTO E SOTTO MAYOR	0.5
UNIAO BANCOS PORT	0.4
B. NACIONAL ULTRAMARINO	0.4
B. TOTTA E ACORES	0.3
CRED PREDIAL PORTUGUES	0.2
CAIXA GERAL DE DEPOSITOS	0.2
MONTEPIO GERAL	0.2

---

base: totality of interviews (600)

It was found that only 43% of all the respondents received their wages by bank transfer (table 7.1.4). The lowest rate was observed in the interior region where only 31% admitted receiving their wages through bank transference compared with 47% in Lisbon, 43% in Oporto and 42% in the coast region.

Of those 43% that received their wages by bank transfer, only 34% chose the bank, the remaining 66% left that decision to the employer organization. From the total tested bank accounts 28% were chosen by the corporation for which the individual worked.

table 7.1.4

DO YOU RECEIVE YOUR WAGES BY BANK TRANSFER	
	%
YES	43
NO	57

table 7.1.4.a

IN CASE OF 'YES' WHO CHOOSE THE BANK	
	%
THE INDIVIDUAL	34
THE CORPORATION	66

Table 7.1.5 shows, for those who received their wages by bank transfer, which bank was chosen and who made the choice.

Again CGD is the institution with the highest rate.

44% of the wages are transferred to CGD and of those, 76% were decided by the employer. The explanation for this particular case, is the legislative obligation of almost all the state services and institutions to have the bank accounts with CGD, as well as their employees for matters of wages transfer. This situation is probably contrary to the EC free competition legislation; this affirmation was not object of research and can not easily be confirmed.

However 14.3% of the respondents with a bank account, are obliged to have it with CGD.

table 7.1.5

Do you receive your wages  
by bank transfer?.....43% (YES)

## CHOICE OF BANK BY THOSE RECEIVING WAGES BY BANK TRANSFER

	TOTAL	CHOOSING THE BANK		
	%	CORP	INDIV	
		%	%	%
CAIXA GERAL DE DEPOSITOS	44	76		24
B. ESPIRITO SNT COM LISBOA	10	62		38
B. TOTTA E ACORES	8	57		43
B. PORTUGUES DO ATLANTICO	7	55		45
B. PINTO E SOTTO MAYOR	6	60		40
B. FONSECAS E BURNAY	6	55		45
B. BORGES E IRMAO	5	63		37
B. NACIONAL ULTRAMARINO	5	64		36
CREDITO PERDIAL PORTUGUES	4	63		37
UNIAO BANCOS PORTUGUESES	3	47		53
MONTEPIO GERAL	3	34		66

base: individuals who receive wages by bank transfer

Table 7.1.6 shows the bank with which the individuals have most of their bank contacts.

Table 7.1.7 indicates the level of satisfaction with the bank indicated in the former table. In general it was observed that the individuals were indifferent in terms of satisfaction to the bank with most contact, however the rates of higher satisfaction levels were, for all the banks, greater than the low satisfaction levels.

BESCL is the bank that shows a higher level 5 (10%).

Uniao de Bancos Portuguese (UBP) is the bank that shows a higher level of satisfaction, 4 and 5.

49% of the UBP clients, to which this is the most contacted bank, claimed to be highly satisfied.

The main reason given in the case of the most contacted bank is the receipt of wages. (table 7.1.8)

Another reason, is because the most contacted bank is the only bank contacted. Also the location of the bank seems to be an important factor.

Only BESCL had a relevant rate (13%) among its clients for being the most efficient bank.

table 7.1.6

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THE BANK MOST CONTACTED	
-----	
	%
CAIXA GERAL DEP	35
B. ESPIRITO SNT COMM LISBOA	11
B. PINTO SOTTO MAYOR	8
B. PORTU ATLANTICO	8
B. TOTTA ACORES	7
B. NACIONAL ULTRAMARINO	6
B. FONSECAS E BURNAY	6
B. BORGES E IRMAO	5
UNIAO BNCS PORTUGUESES	4
CRED PERDIAL PORTUGUES	4
MONTEPIO GERAL	4
B. COMERCIAL PORTUGUES	0.4
CREDIT FRANCO PORTU	0.4
B. FOMENTO NACIONAL	0.4
LLOYDS BANK	0.2

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base: Respondents with bank account

table 7.1.7

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 LEVEL OF SATISFACTION WITH THE MOST CONTACTED BANK
 

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 5- HIGH SATISFACTION

 1- LOW SATISFACTION  
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	TOTAL	CGD	BESCL	BPSM	BTA	BPA	BFB	UBP
	%	%	%	%	%	%	%	%
LEVEL 5	5	4	11	5	3	3	0	10
LEVEL 4	26	21	27	36	26	34	19	39
LEVEL 3	59	64	56	49	67	52	72	39
LEVEL 2	6	7	4	5	3	9	8	9
LEVEL 1	2	3	1	4	0	1	0	0
DK*	2	1	1	1	1	1	1	1

---

base: Respondents with bank account

\* DO NOT KNOW



table 7.1.8

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 REASON FOR MOST OF THE CONTACTS WITH BANKS
 

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	CGD	BESCL	BPSM	BTA	BFB	BPA	UBP	CPP	BNU	MG	BBI
	%	%	%	%	%	%	%	%	%	%	%
receive wages	43	32	26	36	34	21	32	31	24	23	32
because it is the only account	30	29	28	28	23	25	20	34	22	17	23
closer to home	11	19	19	12	22	17	14	8	20	5	22
because it is the most efficient bank	1	13	4	4	2	7	4	6	6	6	3
working for the bank	1	1	-	2	11	3	-	-	-	4	4
others	14	6	33	18	8	27	30	21	28	45	16

---

base: For each bank, those respondents that claimed that bank to be their most contacted bank

Apart from the bank accounts, only 14% of the respondents use the bank services for the payment of electricity bills, 12% for telephone bills and 11% for water bills. Of all the respondents, only 13% had a mortgage and of those, 58% had it with CGD. Also for the bills' payments CGD was the most chosen bank: 21% of electricity bills and 22% for water, Banco Portugues do Atlantico is preferred for tax payments: (16%).

BPSM does 16% of business related to individuals' financial assets; just 4% of the respondents used banks to buy, sell and safeguard financial assets. The biggest bank (CGD) has in this product market segment a share of only 3%.

table 7.1.9

---

WHAT OTHER BANK SERVICES DO YOU USE?

---

	%
Payment of electricity bills	14
Mortgage	13
Payment of telephone bills	12
Payment of water bills	11
Foreign exchange	6
Tax payments	5
Buy, sell, protect of bonds\securities	4

---

base: all respondents

Table 7.1.10 gives some information about the possession of bank debit cards.

Of all respondents, 35% had a debit card; of those 35%, 87% had a Multibanco card. In general there is a big difference between sexes for the rate of debit card possession; men have a rate of 44% and women have a rate of just 28%, this can be explained by the lower rate of employment among women and probably by some other sociological factors. Also among different social groups there is big differences: high social status - 52%

medium social status - 23%

low social status - 13%

Lisbon, in terms of regions, is the one with a higher rate; 39% of Lisbon's respondents had a debit card while the Interior region has the lowest rate of possession: (28%).

9% of those who have a debit card, never used it, and only 49% of debit card owners use it once or more a week (see table 7.1.11). Those who have already used the debit card reveal a tendency to use it mainly for cash withdrawals (97%) and for balance information (65%) (see table 7.1.12). Only 21% of debit card users, used it for EFTPOS payment (table 7.1.13) and of those, only 33% claim to use this payment method regularly, corresponding to 2.2% of the total of the respondents.

The percentage of total respondents that admit to use ATM's regularly is 21%.

table 7.1.10

## POSSESSION OF BANK DEBIT CARDS

TOTAL		
BANK DEBIT CARDS POSSESSION		35%
KIND OF CARD	TOTAL %	CARD OWNERS %
MULTIBANCO	30	87
CHAVE 24	4	10
EUROCHEQUE	3	9
GARANTIA	2	5
OTHERS	1	2

base: totality of respondents

table 7.1.11

-----  
 DEBIT CARDS UTILISATION FREQUENCY  
 -----

	%
ALMOST EVERY DAY	13
WEEKLY	36
TWICE A MONTH	14
ONCE A MONTH	11
LESS THAN ONCE A MONTH	17
NEVER HAS UTILISED	9

-----  
 base: respondents who have a bank card

table 7.1.12

-----  
 DEBIT CARDS TYPE OF UTILISATION  
 -----

	%
CASH WITHDRAWALS	97
ASKING FOR BALANCE	65
CHEQUE GUARANTEE	15
CHEQUES REQUEST	14
OTHERS	6

-----  
 base: respondents who use bank cards

table 7.1.13

---

DEBIT CARD UTILISATION	
	%
ATM'S	98
POS	21

-----  
 base: persons that use bank cards

table 7.1.14

---

FREQUENCY OF UTILISATION		
	ATM	POS
	%	%
REGULARLY	67	34
SPORADIC	33	66
	(1)	(2)

---

base 1: persons using card in ATM's

base 2: persons using card in POS



TOTAL CREDIT CARDS POSSESSION: 5%  
 OF WHICH 84% MORE THAN ONE YEAR

table 7.1.15

---

TYPES OF CREDIT CARDS

---

	%
VISA UNIBANCO	25
B. FONSECAS & BURNAY	17
B. PINTO E SOTTO MAYOR	12
CX GERAL DE DEPOSITOS	5
B. PORTUGUES DO ATLANTICO	4
CARTAO DE CREDITO	3
UNI. BANCOS PORTUGUESES	3
B. ESPIRITO SNT COMM LISBOA	3
UNIBANCO	2
OTHERS	2
DK	23

---

base: persons with credit card

table 7.1.16

---

**CREDIT CARD UTILISATION FREQUENCY**

---

	%
EVERY DAY	5
WEEKLY	17
TWICE A MONTH	19
ONCE A MONTH	20
LESS THAN ONCE A MONTH	36
NEVER HAS UTILISED	3

---

base: respondents with a credit card

**AVERAGE MONTHLY PAYMENTS WITH CREDIT CARD**

14.360\$00 approx £ 60

Only 5% of the respondents had a credit card. Of those, almost all were from the high social group. Of the total credit card owners, 84% have had the credit card for more than one year; 25% had VISA Unibanco (see chapter 5 - credit cards, and table 7.1.15). A relevant aspect is the small frequency of utilization; only 22% of credit card owners use it once or more a week (see Table 7.1.16), this fact is responsible for the low average monthly payments with credit card, that is 14.360\$00, approximately £ 60.

A very small participation and ownership of financial assets other than deposits, was found (see table 7.1.17). Only a small extract of the sample admitted to have a savings account (4%), shares (6%) and treasury bills (4%). These activities occurred only among the high social status.

table 7.17

POSSESSION OF INVESTMENTS	
	%
Savings account	4
Shares	6
Treasury bills	4

base: totality of interviews

7.2 - Questionnaire 2 analysis and interpretation

This questionnaire has, for analysis purposes, 56 questions and 72 different respondents.

Appendix 7 is the complement to the questionnaire 2 analysis. In appendix 7 there are several statistical tables that are the back ground of the conclusions and data analysis of this questionnaire. In appendix 7 each question was treated has a 'column': 1-56, and each questionnaire was treated has a 'row': 1-72.

The questionnaire analysis was done at the computer room of Adam Smith Building, University of Glasgow. Using the Minitab statistical package, a data base was first created from which the data could be manipulated.

Special attention as well as several reservations must be made to the questionnaire results. First the size of the sample is much smaller than questionnaire 1 (600 observations for questionnaire 1 against 72 observations against questionnaire 2), and second this sample had an area restriction. This questionnaire was administered only in the Lisbon and Estoril area.

### 7.2.1 - Principal results

38% of the respondents indicated the location of a particular bank branch has the main reason to choose a bank. Only 3% referred interest rate as the principal factor. This fact is normal, given the last decades conditions\* of the Portuguese banking system and institutions. Family tradition appears as the second most important factor when choosing a bank. There were 13% of respondents indicating this reason as the principal reason to chose the bank. Wages transfer and trust appear as the third most indicated reasons: 11.5%. Only 45% of the sample (33 persons) gave a second reason to chose a bank. Of those, 30% indicated location as the second reason. (see appendix 7)

---

\* As it was referred in chapters 4 and 5, real interest rates were for several years negative, and were determined by the Bank of Portugal.

table 7.2.1

-----

WHAT LEVEL OF IMPORTANCE DO YOU GIVE TO THE FOLLOWING  
FACTORS IN A BANK?

-----

	1 POSITIVE LEVEL OF IMPORTANCE	2 NEGATIVE LEVEL OF IMPORTANCE	
	%	%	(1-2)
LOCATION	66	7	59
IMAGE AND STYLE	19	24	-5
BRANCH DECORATION	9	46	-37
ADVERTISEMENT	3	58	-55
PRESENTS \ OFFERS	14	58	-44
STAFF AFFECTION	73	3	76
TIME QUEUEING	81	1	80
BANK PRESTIGE	52	4	48
LINKS WITH THE CORPORATION YOU WORK FOR	31	23	8
NUMBER AND QUALITY OF STATEMENTS	46	14	32
INTEREST RATE	76	4	72
OPERATIONS COST	55	13	42
INTERNATIONAL RELATIONS	23	26	-3
EASY TO OBTAIN CREDIT	63	13	50
SECURITY AND STABILITY	76	1	75

-----

base: totality of the interviews

table 7.2.2

---

 CLASSIFY YOUR BANK FOR EACH OF THE FOLLOWING FACTORS
 

---

	1	2	
	POSITIVE	NEGATIVE	DIF
	%	%	%
			(1-2)
LOCATION	80	3	77
IMAGE AND STYLE	64	7	57
BRANCH DECORATION	43	13	30
ADVERTISEMENT	24	21	3
PRESENTS \ OFFERS	7	50	-43
STAFF AFFECTION	57	15	42
TIME QUEUEING	35	30	5
BANK PRESTIGE	70	4	64
LINKS WITH THE CORPORATION YOU WORK FOR	39	14	25
NUMBER AND QUALITY OF STATEMENTS	50	13	37
INTEREST RATE	40	17	23
OPERATIONS COST	23	19	4
INTERNATIONAL RELATIONS	27	10	17
EASY TO OBTAIN CREDIT	32	13	19
SECURITY AND STABILITY	70	3	67

---

 base: totality of the interviews



Tables 7.2.1 and 7.2.2 show respectively the individuals importance towards each of several factors when choosing a bank (7.2.1); and the perceptions customers have from the way their bank behave towards those factors.

The individuals that answered 'do not know' or 'indifferent' to a particular factor were not considered in that factor analysis.

Using table 7.2.1 it is observed that the most important factor for individuals when dealing with a bank is the time queueing (a general positive level of importance of 80%).

The second most important factor is staff care and attention (positive level of importance of 76%). When those perception levels (table 7.2.1) are compared with what in fact customers face (table 7.2.2), a comparative analysis is obtained in table 7.2.3.

table 7.2.3

-----

COMPARISON OF THE IMPORTANCE CUSTOMERS GIVE TO SOME FACTORS  
AND THE WAY BANKS PERFORM IN THOSE FACTORS

-----

	1 GENERAL LEVEL* OF EXPECTATIONS %	2 GENERAL REAL LEVEL* %	DIF (2-1)
LOCALISATION	59	77	18
IMAGE AND STYLE	-5	57	62
BRANCH DECORATION	-37	30	67
ADVERTISEMENT	-55	3	58
PRESENTS \ OFFERS	-44	-43	-1
STAFF AFFECTION	76	42	-34
TIME QUEUEING	80	5	-75
BANK PRESTIGE	48	64	16
LINKS WITH CORPORATION YOU WORK FOR	8	25	13
NUMBER AND QUALITY OF STATEMENTS	32	37	5
INTEREST RATE	-3	17	23
OPERATIONS COST	42	4	-38
INTERNATIONAL RELATIONS	-3	17	23
EASY TO OBTAIN CREDIT	50	19	-31
SECURITY AND STABILITY	75	67	-8

-----

\* From tables 7.2.1 and 7.2.2.  
Positive or negative level.

It is observed that is, exactly in the factors that bank customers are more sensible (time queueing and staff affection) that banks, in general, are, from customers point of view, performing worst (see table 7.2.3).

Using this kind of analysis it is observed that for the list of factors presented, banks in general are performing better than the expectation level of customers, in factors such as location, image, branch decoration, advertisement, prestige, links with the corporation the individual works for, number and quality of statements, interest rate and international relations.

Banks are performing under the expected levels, in factors such as presents - offers, staff friendliness, time queueing, operations costs, facility in obtaining credit and security and stability.

When interviewees were asked if the fact of a bank being Portuguese was or not important, only 37.5% answered affirmative. However, in general when asked for the level of importance they give to that fact, respondents gave low levels of importance.

When asked if they faced problems in their relations with banks only 70% of the respondents answered positively.

Of those, 46% indicated time queueing, 24% answered do not know, 10% indicated the long time banks take with money transfers and 6% indicated the big difference between active and passive interest rate.

A list of banking products and services was shown to respondents; they were then asked which of the products in the list, would they like to be offered by banks. The results obtained are shown in table 7.2.4.

table 7.2.4

---

PRODUCTS AND SERVICES THAT YOU  
WOULD LIKE TO BE OFFERED BY BANKS

---

	YES %	NO %
MORTGAGE	62.5	37.5
CAR LOANS	39	61
LOANS FOR OTHER GOODS	42	58
AUTOMATIC FUNDS TRANSFER	67	33
TAX PAYMENT	57	43
TAX DECLARATION ELABORATION	45	55

---

base: totality of interviews

This questionnaire also revealed a considerable confidence in electronic funds transfer among respondents. 90% of the respondents said that they believe that in the near future there will be an exclusive use of EFT. 88% of the respondents think that an exclusive use of EFT is a very good development and see this as a very important and positive fact. Only 10% of the respondents claimed that an exclusive use EFT can bring problems; the problems referred to are related to the fact that this system permits the user to spend money faster, and are related to frauds and network break-downs.

54% of the respondents do not believe a bank insolvency is possible.

When respondents were asked if they were thinking of changing to another bank, 89% answered they did not know. 10% said they will soon, and 1% said that will not change. The respondents that were thinking of changing bank are now doing business: 20% with CGD, 20% with BESCL, 10% with CPP, 10% with BTA and 10% with BPSM.

The only respondent that said he will not change bank, is doing business with CGD.

The reason indicated by those who pretend to change bank is mainly related with the bad quality of staff and time queueing.

30% of the respondents had their account with CGD, 15% with BESCL, 14% with BPA, 10% with BPSM, 6% with UBP, 6% with BTA and 5% with BCP the only Portuguese private bank referred by respondents in this sample. The other private bank referred by a respondent was Lloyds Bank.

In this sample 51% of respondents were men and 49% were women.

65% of the respondents were less than 35 years old, and only 4% were more than 65.

### 7.3 - Questionnaire 3 analysis and interpretation



This questionnaire was answered by corporate managers. It has, for analysis purposes, 30 questions and 40 different respondents. Appendix 8 is the complement of this analysis. In this part, only the banking questions (1-19 and 30) are analysed. Appendix 9 and 9c contain the analysis and interpretation of the questions that are related with tax evasion and state apparatus.

This questionnaire analysis was undertaken at the computer room of the Adam Smith Building, University of Glasgow. The method applied was the same as that used for questionnaire 2; a data base was created from which the data could be manipulated.

The ISCTE's students participation in the data collection of this questionnaire did not go under a control supervision. After a mail approach that was not very successful and due to financial limitations it was, nevertheless, decided to use this small sample. Thus, the results of this questionnaire must be interpreted with considerable caution. There also was a limitation in the area of study to the Lisbon area. The questionnaire itself must be redesigned and updated, and the mail approach should be used and no kind of identification should be required. Further studies should pay attention to all these facts.

## 7.3.1 - Principal results

After a list of motive factors was shown, managers were asked which of them, as corporate managers, were important when choosing the bank their corporations was doing business with. The results are presented in table 7.3.1.

table 7.3.1

-----  
 REASONS FOR A COMPANY TO CHOOSE A BANK TO DO BUSINESS WITH  
 -----

	YES %	NO %
LOCATION	60	40
CREDIT FACILITIES	67.5	32.5
INTEREST RATE	15	85
GOOD RELATIONS WITH STAFF	17.5	82.5
GOOD STATEMENTS INFORMATION	-	100

-----

The services used by corporations in this sample are very basic. Only one of the corporations approached had used a bank for matters of share issuing. (see table 7.3.2)

table 7.3.2

-----  
 BANKING SERVICES THAT CORPORATIONS USE  
 -----

	%
DEPOSITS	87.5
DRAWS	85
RECEIVEMENTS AND PAYMENTS	85
LOANS	75
CASH MANAGEMENT	20
BUY AND SELL FINANCIAL ASSETS	10
CONSULTANCY	7.5
SHARE ISSUE	2.5
FISCAL CONSULTANCY	-

-----

When asked whether the banks should be given full responsibility for cash and treasury management, only 27.5% of the managers who responded disagreed, 45% approved of the idea and 27.5% were indifferent.

32.5% disagree with the links between bank accounts and fiscal number and the requirement of every monetary transaction to be conducted through bank accounts. However 32.5% agree with this measure.

60% of the sample managers, see as essential the development of both 'corporate banking' by computer and EFTPOS. 72.5% think that fiscal control, in this conditions, would be much rigorous.

72.5% agree with the creation of financial minimums for corporations wishing to raise external finance.

8 - FINAL CONCLUSIONS

CONTENTS

- 8.1 - Final relevant comments
  - 8.1.1- Advantages / Disadvantages - some solutions
  - 8.1.2- The CGD case
  - 8.1.3- The legislative home country 'passport'
- 8.2 - International affairs
  - 8.2.1- International influence
- 8.3 - Relevance of the study
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### 8.1 - Final relevant comments

The financial markets and institutions of the most developed economies have been, in the last two decades, participating in and leading a gradual process of modernisation. This process includes several factors already outlined in chapters 2 and 3. Some of these markets and institutions are within the EEC geographic boundaries, in particular the London international financial centre, the British financial institutions and the German universal banks.

Some of these strong financial institutions will soon be in direct competition with the Portuguese financial institutions in the national market.

In the meantime, the national financial system and institutions have been protected and removed from such developments and competition. Several factors were responsible for that isolation, of which the most important was the regulatory restrictions to the participation and entrance in the market of foreigner institutions, thus protecting the national system from foreigner competition.

The restrictive internal measures, discussed in chapters 4 and 5, to the activities of national banks and other

financial institutions have contributed to the delay and isolation of the Portuguese financial system. The unstable situation of most of the Portuguese corporations in the last few years, explained in chapter 4, and the fact, that, the great majority of Portuguese citizens have a low level of income (see tables 4.1, 4.2 and 4.3 in chapter 4 ) did not create a pressure in the demand for financial products and services.

During an extensive period of time, apart from the basic bank deposits and money transfers, the Portuguese financial institutions had little more to offer.

The fact of a general low income did not lead to an outflow of capital to foreign markets searching for better financial applications. However, with the Portuguese membership of the EC, these conditions are going to be modified. The economic perspectives are positive. Portugal is getting closer to the European standards and the national market is now very attractive to foreign investment, in particular in the financial and banking business (this fact is presented in chapter 4). The reality will soon be very different.

With the EC membership the national markets will lose after 1992, all the protections against the entrance of institutions and regulations from other member countries.



This is a particularly serious reality when financial markets and institutions are concerned. These markets will soon be open to some of the most advanced and aggressive financial institutions in the world, and also to their home country rules (this new concept is explained in chapter 3). The situation is particularly threatening, when the global strategies of some of the British and German financial institutions are observed (chapters 2 and 3 analyse some of those global strategies). Some of those institutions have already obtained authorization to participate in the Portuguese market (see chapter 5).

Their different philosophy and aggressive behaviour can in the national banking market already be observed, in particular at the level of corporate banking segment, where those institutions have a big competitive advantage. They have a deep knowledge, strong capabilities and experience in this specific market segment. In Portugal they advertise that they will seriously contribute for the expansion of business of Portuguese corporations, in particular those interested in export and import business. This is, in Portugal, a totally new market approach, that in a short period of time, will be very successful.

### 8.1.1 - Advantages / Disadvantages - some solutions

The recent process of the Portuguese financial markets' deregulation, will allow the national institutions to develop their level of activity, namely by the creation of new products and services. The amount of credit that each institution is going to be able to offer is going to depend on the capacity of the particular institution to raise funds\* and not on regulatory decisions. This fact will probably raise the level of product market ambition of the Portuguese financial institutions. (This matter was developed in chapters 4 and 5)

The 1993 market conditions, will have from the national institutions point of view, several disadvantages. The national system, and almost all the national institutions are not used to most of the products, practices and functioning of the modern financial markets. (see chapter 5) Their level of experience is much lower than that of most other EC financial institutions.

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\* Funding can now easily be obtained in the money markets, traditionally more expensive, but at the same time there is not a cost of running a network.

The low level of experience and knowledge, combined with the high costs of structure, abstracted in chapter 5, of most of the Portuguese financial institutions, are their principal weakness when compared to the future potential competitors. It is a prerequisite for the Portuguese institutions interested in protecting and consolidating their position in the market to pay considerable attention to these two factors. These problems need to be solved as quickly as possible in order that a competitive position can be accomplished, and eventual mergers and take overs from foreign financial institutions avoided.

Despite those weak points, there are several advantages that can be explored. Banks have high market penetration (in questionnaire 1, 86% of the respondents claimed to have a bank account). This fact combined with the high confidence level in the banking system, expressed in questionnaire 2, puts the banking system and the banks in general in a promising position. The much better knowledge of the internal market when language, culture and habits are taken into consideration, and the almost exclusive possession of the financial system, are other advantages to be explored by the Portuguese banks. The geographic coverage through branch network and the brand name, in particular at the retail banking business, is another.

In addition the whole system still has two more years to develop and proceed to necessary alterations, in particular in the internal organisation and management of the banks and from a legislative point of view.

The recent entrance of several new foreign competitors will allow the national market, at this stage, to have a first contact with the most developed performances.

Furthermore, there are several national banks with positions in several international financial centres namely through branches and representative offices, some of them, already with a presence of several years. That experience can and must be used.

In general, from an internal point of view, there are some important differences between banks. A first group of banks is composed of the oldest and most important banks (see chapter 5 and 7). These are the banks presently nationalised. These banks, in general, are facing several structural problems, especially concerning staff and capital adequacy. The second banking group includes the new, innovative and very active private banks. They do not have the kind of structural problems of the former group. In general their capital structure is at very good levels and they do not face problems with staff in excess.

These banks, have in the last few months gained considerable market share and will have an important role to develop in the new financial scene.

It is, in this context, important not to forget that for the customers (see questionnaire 2 results), namely those from the individual retail segment\*, the fact of a bank being Portuguese or not, is not relevant when choosing a bank.

From now on, the exploration of competitive advantages with the supply of quality based services, is going to dictate the success and differentiation of the several institutions. Competition is expected to increase for both deposits and loans from national banks, foreign banks, building societies\*\*, investment funds, portfolio management, securities companies and retailers.

The level of products and services will increase significantly answering to the several product market segments. Also the number of players and competitors will grow, stimulating these traditionally quiet markets.

Now, that some of the most restrictive internal regulations do not exist any more, namely interest rate and credit controls, the Portuguese banks must start to organise themselves in order to be prepared to the 1992 market conditions.

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\* In general the Portuguese bankers believe this market to be protected from foreign competitors.

\*\* The level of business of building societies is expected to have in the short run a large increase after the expected liberalisation of the habitation law.

The house rental rates are now subjected to regulatory constraints. When this is raised a great number of people will prefer to pay a mortgage because the rents will tend to increase significantly. This fact is already expressed by the results of questionnaire 2.

A considerable proportion of the individuals expect to buy a mortgage.

Planning is one of the instruments that banks must exploit in order to achieve a better competitive position. It is also a very important and useful management tool.

All the banks should pay attention to the need to acquaint all the staff with the procedures, intentions and aims of the plans.

Only by solving and changing some of the present problems, will the banks be able to improve their image. From the customer point of view it is very important to solve major problems such as the long queueing time, and the problems regarding the relations between staff and customers.

In general it is important to develop the skills of the staff, in particular of those with greater contacts with the customers. It is important that banks are aware of this fact. The quality level of personnel must be raised through training, education programmes, work experience and courses such as marketing, financial management, financial engineering, new technologies, strategic planning and public relations.

If the banks as a whole do not have a sufficient number of specialists to provide training and management development, universities, in particular business schools, can play an essential role on developing such training programmes.

The problem of the long queueing in banks, must be solved through a more efficient service and through the introduction of several incentives for the utilisation of alternative delivery systems, namely fully automated branches, ATM's, EFTPOS, telephone banking and credit cards-that have presently a very low usage rate (see results of questionnaire 1). Banks should also study the introduction of more functions that systems, such as ATM's, are able to perform. Incentives should be given, to the introduction of EFTPOS and corporate banking, to retailers and corporations.

As far as customers are concerned there is a high level of acceptance of these new systems, in particular to the ATM and POS Multibanco system. (see results of questionnaire 2) The opportunity exists and can easily be explored.

These developments will permit as well, a lower use of paper within the banking system as is the case of some of the most advanced institutions, presented in chapter 2 and appendix A.1.

Banking technology both in the front and back office will permit a lower cost structure and a more efficient service as well as a better treatment of information and data (see chapter 2).



The Portuguese financial institutions must explore these essential factors and complete the technology investment trend already initiated (see chapter 5). Substantial investments in information technology, dealing capacity and communications network are a condition for any strategic success.

Innovation and differentiation of products and services will be a major tool in the competitive market. It is important that banks proceed to a segmentation of products and customers and they should be able to recognise each activity as a separate business. They also must recognise existing regional characteristics (see chapter 7). At this stage, the introduction of measurement systems, of profitability by customer and by service will be one of the most important management tools. These systems have proved to be of great interest in banking management (see chapter 2). It is also, very important to identify the links and collaborating relations among the different kind of business. This, will provide banks with better information on the relationships between customers and the different products and services, thus becoming more client orientated by providing more specific and quality products.

The banks must easily answer questions as:

Who are the customers?

What are their needs?

What products and services meet those needs?

Can the bank offer these in an efficient and profitable way?

What risks are involved?

In this context it is also crucial to pay attention to the market pressures. The innovative, aggressive and well trained competitors will recognise the market needs. There is for the national institutions the option of offering a broad portfolio of services or to focus as a matter of strategy on the provision of specific services which should be targeted to specific and predefined customer market segments. It is important to make clear, that neither of the strategies will lead to success or failure.

Each bank must, then, study carefully its particular disadvantages and advantages and define and base its own strategy on that analysis. Factors such as the size of the bank, product and market advantages, geographic coverage, organisational advantages, information\* advantages, ties with national industry, ties with government and the image of a particular bank, must be rigourously identified and explored.

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\* Information is one of the most important advantages.

Is considered to be the heart of banking. It allows to reduce, spare and avoid risks.

However, the fact that a considerable number of the individuals' accounts are conditioned by the organizations that the individuals work for (see questionnaire 1 and 2 results), is a factor that banks must take into consideration. This indicates that a demand for a multiplicity of banking products, identified in the analysis in chapter 7, should be satisfied. This strategy can lead to a lower level of costs and richer customer information.

If the conditions observed are maintained, banks, in general, must prepare themselves to perform corporate customers' financial business, as well as that of their employees. It is the corporate and merchant business segment of any bank which establishes a relationship with the corporate sector, and from that to the employers, thus the corporate business is the most important base. It is precisely in this kind of business that the Portuguese banks are considered to be weaker. Traditionally the relationship between corporations and banks is not very strong. (questionnaire 3 results also indicate this situation)

It is not the corporations' fault and it is not the banks' either. This fact is intrinsically connected with the monetary policy measures that took place in the last two decades. This measure were explained in chapters 4 and 5.

Changing the relationship between banks and corporations is a big challenge, because the corporate segment is the one preferred and targeted by the foreign banks already in the market. The national institutions must urgently initiate crucial arrangements in order to have a competitive participation in this market segment. The profitability of a considerable number of banks will depend in the capacity of developing closer links with corporate customers.

There is a large number of services that can be offered. The banks' success will depend on the quality of the service, in the use of rational pricing techniques including more differential pricing policies related to the level of usage of specific products and packages, in promotion and flexibility.

A constant comparison between the performances of each bank and the performances of the competitors must be made.

The links between banks and corporations, are based on a mutual trust and on a high level of integrity. The banks have access to internal and confidential information about their corporate customers' business. Corporate clients, in particular those who have demonstrated loyalty and confidence, should be sure of the bank support in difficult times. The banks must accept and be prepared to participate in the customers' business when required and to initiate

opportunities for participation. The development of those links must be achieved through a close and confidential relationship. Banks can also develop opportunities to hold equity positions in their corporate customers (see the German and Japanese cases in chapters 2 and 3). This will promote the relationship between the banks and the corporations. The corporations involved may find it attractive to have a bank as a partner. It is obvious, that these situations must be individually studied and negotiated. Several kinds of relations between banks and corporations will emerge.

Various financial services must be offered to the corporate sector of which the most important are consultancy services, funding, depositing, processing and foreign exchange services.

The practice of larger corporations borrowing directly from the public by issuing money market papers will probably grow. Through this the banks can develop an important intermediation function by settling the business and possibly granting the credit guarantee. Besides assisting this kind of corporation in the primary market sale and

underwriting of securities, the financial institutions must as well develop syndicated loan techniques.

In general, the financial institutions can play an important role in the success of Portuguese corporations and, in consequence, in the expansion of the aggregate supply and national product.

If their corporate customers are successful in their business, so also will the banks be.

Another possible strategy is the appearance of correspondent banks by exporting services from one country to another or by providing collective services. The 1993 market conditions will encourage joint ownership banks and consortium banks. However several precautions should be taken when these strategies are to be implemented and performed (see chapter 2 - Consortium banks).

The banks must also introduce a new dynamic in internal savings, expanding the range of products offered by the introduction of several different instruments for different markets and consumer groups to mobilize savings and facilitate credit: checking accounts, deposit accounts, childrens' accounts, students' accounts, term deposit accounts, overdraft loans, mortgage loans,

credit finance, student loans, investment advice, tax services, life and other insurances, credit cards, travellers' checks, pension advice, asset-based finance, foreign exchange services, portfolio management, export and import finance, leasing, factoring, cash management, wages payments and syndicated loans.

### 8.1.2 - The CGD case

The connections between CGD and the state must be carefully studied and analysed by the other banks.

Is the relationship (explained in chapter 7) between this bank and the state apparatus legal?

Portuguese laws and European laws must be examined and understood and the implications for the Portuguese banking recognised. Action to change this monopoly has to be taken swiftly. This is an important issue for the new competitive market. Until now it was not relevant but now that there is a relationship between deposits and credit granting capacity, the relationship between CGD and the state is not favourable to the other banks.

With credit liberalisation, deposit taking and credit granting are crucial competitive issues.



### 8.1.3 - The legislative home country 'passport'

More attention must be paid to the evolution of financial legislation in other EEC countries because it will have a direct influence in the national market conditions (see chapter 3, home country regulation issue). The activity of the institutions of other EEC countries participating in the national market will be regulated by their home country rules. The Portuguese financial legislation, after 1992 will only be valid for the Portuguese financial institutions whether they are doing business in the national market or abroad. This will provoke a constant need to review and liberalise regulations, in order to ensure that national institutions are not disadvantaged, and can perform activities similar to their competitors. An effective analysis of the aggregate risks must be made.

## 8.2 - International affairs

Because the national economy is growing and is increasing its economic relations with the outside world, trade is expected to increase. There will, then, be an increased volume of trading in escudos on the foreign exchange market reflecting a higher level of international trade.

Banks must be able to provide the complete foreign exchange range of products, including long term foreign currency swaps. This will require more information about their customers and the market conditions in order to bring together borrowers and investors with different currency interests. Electronic banking has, also, an important role to play, permitting a rapid acceleration in information and money transfers. Banks must pay attention to several basic principles that dictate the general functioning of these markets. If a large interest rate differential exists between countries, such differentials will provoke flows of capital from one country to another, which ordinarily result in changes in the exchange rates, adjusting the situation to an eventual situation of equilibrium.

In the context of capital flows there is a need for harmonisation of tax treatment among countries, particularly

within the EEC in order to overcome tax avoidance from financial activities. With the objective of tax avoidance, Portugal is facing the risk of seeing their citizens, in particular those from the high social status, and corporations opening bank accounts and conducting their financial activities in foreign countries. This situation is, however, the same for all the EEC countries. The non-taxation of non-residents is, nowadays, the main cause of these situations and is the easiest process to conceal from taxation authorities.

### 8.2.1 - International influence

In the short run, there are no indications that Portuguese banks will have an important world-wide and international influence. Apart from existing international activities (see chapter 5) - external funding in the international money markets, transfer of emigrants savings to Portugal, and Portuguese property selling, namely in the Algarve, banks are not expected, in the short term, to enlarge their international influence.

The Portuguese banks are, however, expected to expand their business and influences to the PALOP's (African countries with Portuguese as the official language). These include Angola, Mozambique, Cap Verde, S. Tome and Principe and Guine. These are potential markets for the Portuguese banks where the escudo is considered an important currency. The Portuguese banks also have the language advantage and the advantage of local knowledge. In addition, there are several cooperation agreements between Portugal and those African countries.

In the medium and long run, and beside PALOP's, the international influence of the national banks is to a great extent going to depend in the performance of Portuguese

corporations and the success of their products and services\* and the relationship and participation of national banks in those successful corporations.

Meanwhile, is much more relevant to adopt defensive strategies in the domestic market, through the internal development of the banks in order to achieve a strong competitive position by 1993.

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\* Very few Portuguese products are known and sold abroad. Portugal is mostly known by having good Port wine and sunshine almost all year.

### 8.3 - Relevance of the study

This study shows how the most developed financial centres and institutions in the world, work. In addition several general problems concerning the Portuguese financial system and institutions were identified. Some of the most important differences from their future European competitors were identified and discussed.

The information provided in this work can, if utilised, contribute for the modernization of the Portuguese financial system in several fields: innovation and new technologies, intensification of the quality of service provided and intensification of the international financial relations.

The study identifies some problems of the Portuguese financial markets.

Some important account holders' perceptions were analysed. This study shows the logic of the development of a cashless or near cashless society. Evidence of the acceptance of EFT is given.

In addition, the study gives some general indications and suggestions as to how banks might prepare for the new market conditions.

#### 8.4 - Indications to further studies

This study can be a useful background to further studies and research directions on the Portuguese financial and banking markets. The influence of the new internal deregulatory process in the national banks' strategy is one of the most important and relevant questions. A study should, also, be undertaken, in the relationships between banks and successful corporations.

The creation of conditions for an expansion in the financial markets, and the constitution of new financial agents and products will bring several new fields for research related with new products, new competitors, new regulations and new technology.

Further studies should, however try to be more specific.

The samples of analysis should be chosen carefully and focused on more specific issues. This study must be used and seen as a general study.

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APPENDIXES



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A.I - APPENDIXES 1 AND 2 INTRODUCTION

## A.I - Introduction

Appendix 1 is the description of several important cases in banking. Some institutions strategic decisions are in this section presented. Although there is a huge number of other similar and important cases that could be present, these were, however, some of the more interesting and innovative.

In appendix 2 different opinions, forecasts and views of the future, are expressed by some British bank's managers.

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APPENDIX 1 - CASES DESCRIPTION

A very interesting case of innovative performance is the Merrill Lynch case.

Time magazine claims in its 3\12\84 edition that the bank of the future already exists and it is called Merrill Lynch.

In 1977 Merrill Lynch developed its Cash Management Account (CMA). This new account concept was to revolutionise the upmarket consumer banking. This American company, prior to launching the CMA, was careful to check and obtain clearance with the Federal Reserve that its new product did not constitute a bank account, therefore could be offered nationwide and would not place Merrill Lynch in contravention of banking law (see 2.3) and would not require reserve deposits to be placed with the Federal Reserve authorities. In addition Merrill Lynch cleared with the Securities Exchange Commission that the CMA was still technically a brokerage account, and that any loans granted would be at the brokerage loan rate. Deposits would be treated as investments by the brokerage house investing them in mutual funds or securities, according to client instructions. The product was then introduced with little publicity, in part to avoid provoking the banking industry. By the time the banking industry realised the importance of the Merrill Lynch innovation the CMA was rapidly becoming established and the brokerage house had lead time of several years as banks tried, largely unsuccessfully, to block the

CMA while imitators amongst other non-banks struggled to develop the system's technology to offer similar products. The CMA was designed to appeal to the moderately well off, but not necessarily the rich. The product was created to provide a mass market service. To open a CMA investors need to have at least \$20,000 of cash or marketable securities to place in the account for which they receive the following services:

- 1- account holders are given a cheque book and a Visa card (these two facilities are operated by Bank One, Ohio, one of the new high technology banks and although a small regional bank, being one of the largest Visa processors in the USA). Merrill Lynch cheques carry the Bank One clearing house number.
- 2- holders receive a comprehensive monthly statement of all the transactions conducted using the CMA. The statement shows the investor's holdings of money market shares, stocks, corporate, treasury and municipal bonds, dividends and interest received, securities and options bought and sold during the month, brokerage charges, cheques drawn and Visa debts incurred.

Funds placed in the CMA are in the form of cash, stocks and bonds. All cash is placed in a money market fund on which interest accumulates daily.

The success of the CMA led Merrill Lynch to expand the range of instruments which account holders could opt for. By 1985, there were four main choices:

- . CMA Money fund, paying current money market yields
- . CMA Tax exempt fund
- . CMA Insured Savings account

The latter is a money market deposit account opened by Merrill Lynch at banks and loan institutions throughout the USA. All dividends or interest received on stocks and bonds or the proceeds from the sale of such securities are sent into one of the money market funds unless an account holder has given instructions to the contrary. When cheques or Visa debts are incurred these are first deducted from any cash awaiting to be sent to the money market funds. Should this be insufficient then a sale of money market funds resources is automatically triggered. If this funds are inadequate to meet obligations a margin loan is triggered up to a value of 50 percent of the value of the securities, stocks and bonds held in the account. These loans are charged at the brokerage loan rate. The effect of the CMA for the investors is to provide a facility to concentrate most of the financial services they require into one comprehensive, cheap and highly convenient account with the attractive feature of having the automatic facility to convert fixed assets to a monetary form. Merrill Lynch does not encourage

the use of CMA cheques. Instead the company advise the holders that they should maintain existing bank relationships and use these for small cheques. It is the case that the CMA holders use only 5-6 cheques per month. Investors use the American Express card for its extended credit, rather than the CMA Visa facility where a debt is led to an immediate deduction from investment in money market funds. The success of the CMA was dramatic. By mid 1982, Merrill Lynch had 680,000 accounts and was still adding new ones at the rate of around 1,000 a day. By 1984 there were over one million CMA holders, being the account available in 21 countries. Merrill Lynch success allowed the brokerage firm to gain a large share of the upmarket consumer segment which more and more bank and non-bank institutions recognize to be amongst the most profitable sector in the personal financial services.



## OTHERS

In the USA a number of retailers were also beginning to offer a full range of financial services in their stores. These included companies like Sears and Storehouse operating in conjunction with Citibank. In the UK, Marks and Spencer and House of Fraser, among others had established store card customer bases of well over 1 million accounts which are potential customers for loans and other financial services. However, in the UK the main competition for the banks in the small savings market occurred from the building societies. Unlike the US savings and loans industry, these institutions had been, mainly in the UK, extremely successful in attracting savers, both those with bank accounts and those without. In 1970 the average penetration of building society accounts amongst adults was 17 percent, in 1979 the same indicator was 43 percent. The banks had, however, made substantial progress in penetrating the market for housing loans and by 1987 had reduced the share of new mortgages held by the building societies to under 70 percent, also when stock markets were climbing upwards, individuals moved some of their funds from building societies into unit trusts and equity investments.

## THE CITIBANK CASE

Citibank in New York decided to do business only with those who leave adequate funds on deposit. As a result, branches were subdivided. High-net-worth individuals with average balances of over \$20,000 are provided with a better furnished area of the branch in which they can do business with financial advisers. Accounts with \$3,000 average balances are provided with conventional counter services, those with only \$1,500 up to \$3,000 are encouraged to use ATM machines rather than tellers. Customers with average balances below this level are examined carefully and subdivided into a series of segments according to average balances and transaction rates. The lowest balance highest transaction balance segments are encouraged to obtain their banking services elsewhere. Citibank's retail banking strategy in New York, referred to by Channon (1988), also typified the shift in delivery system strategy. Between 1979 and 1984 the bank reduced the number of its branches from 260 to 220. At the same time, however, the bank expanded the number of its distribution points by installing over 500 ATM's which under the slogan 'The City never sleeps', are available for transactions 24 hours per day. At the same time bank staff were cut from 7,000 to 5,000.

In Scandinavia banks had spent heavily on building integrated data bases.

Skandinaviska Enskildas Banken, the largest Swedish Bank is considered to be a leading institution. The Bank had introduced an integrated data base for retail Banking. The system gives management quick access to information on an account's foreign exchange trading, capital market activities, corporate chequing accounts, loans, cash management services and domestic and international funds transfers. The bank is also easily able to make analysis and tests on each service price elasticity and several other kinds of sensitivity analysis. With this particular system customers who cost the bank money can also be identified and purified from the system, or converted to levels of profitability by the use of alternative delivery systems, pricing or extra volume.

The Spanish case of Banco de Santander telephone banking system is one of the most advanced in using this kind of technology. The customer dials the bank where a computer generated voice responds asking for the customer's account number, which is entered by pressing the telephone keys. Next the voice requests a PIN which in turn is entered in, after which the bank's services can be accessed.

Another peculiar case in delivery systems started when Chase Manhattan opened business banking centres on the upper floors of office buildings. These centres, which provide personal banking services to business and professional customers, are not designed to look like conventional branches. Customers enter and are met by a receptionist. Each customer has a personal service representative, who sets in a private office with a conference table. Chase Manhattan started such centres in New York and is planning to open similar offices in other financial centres around the world.

APPENDIX 2 - TOP MANAGER'S VIEWS OF THE FUTURE

It is important to quote some of the affirmations of some British banks top managers when they were asked to make some previsions of what they think the delivery of banking products and services will be in the future.

All of them seem to predict a great development on using faster ways of communication when conducting operations and a special attention to the human element, thus,

R. Flemington (National Westminster) said:

The branch of the future often creates images of high-tech outlets. But the most important elements is the people.

We have been developing our branches for some time with the aim of providing a warm and friendly environment for our small business and personal sector customers. The style is both modern and fresh and shows the kind of ideas that are being considered to enhance the image of our branches for the 1990's.

R. Kilgour (Co-operative Bank):

Branch will become 'financial retailing units', they will be of completely modern design with one small counter area, a number of ATM's and a reception desk where customers will 'check in'. Inevitably people will be going into bank branch less and less frequently in the future. There will be less need for bank counters to handle personal customer business, although there will still a need for at least one counter

area to handle business customers who will continue to bring in large number of cheques and large amounts of cash for processing - some things do not change so quickly. But with the parallel development of EFTPOS and telephone banking there will be less need for the formal banking layout.

The Co-Operative Bank has already started separating the personal and corporate services into two different branches in a number of locations throughout the country. Bank branches usually have to allocate twice as much space as there is in the public banking hall to the back office where all administration and processing work is done.

It makes no sense to do this using valuable high street space where rent and rates are at their highest. Another development which could change the face of banking in this country is telephone banking. By this means, a customer will be able to pay his bills via a telephone call. Some banks have already introduced telephone banking and there have undoubtedly been problems with the technology and with the costs, but it will come. We are now having to fight for business against building societies, insurance companies and retailers. The only way to win in this new business environment is to use the best advantage the latest high tech aids to give the customer what he needs and demands in the way of service and accessibility. Products offered by banks are basically the same; customers buy on image, reputation service levels and accessibility.

Stephen Myhill (GiroBank) said:

Our strategy is to deliver banking of the future through direct banking via telephone and mail.

B. Nichol (TSB-England and Wales):

In essence, the freedom created by our advanced computer systems including the growing acceptance of 'do it yourself banking' through autoteller or telephone, releasing staff to concentrate on the broad spectrum of service in an environment which fosters a productive relationship for both customer and bank.

Seymour Fortescue (Barclays Bank):

(...) flexibility is the key.

In the individual market, competition is fierce, not only from traditional rivals such as building societies, but from major retailers, which have identified financial services in an area for expansion. On the corporate side, customer sophistication in demanding the development of more complex products, requiring new skills and specialist computer systems. Our objective is to deliver the right product to the right customer, at the right time, at the right price and in the right way, so that he buys not only once, but again and again.



David Robinson (The Royal Bank of Scotland):

The ease and the speed with which the public took to the new technology is a pointer to how they may react to new and even more sophisticated products and services.

When referring to telephone banking he added:

The voice is used as an audible finger print to confirm that the person giving the instructions is indeed the correct customer. (This was the first reference to this kind of telephone banking system)

David Pirrie (Lloyds Bank)

It has become increasingly important that resources are focused to meet the specific requirements of clearly differentiated market segments. The branch information technology system on which we are working will deliver a number of benefits. Computer programs will examine the available data and inform managers of sales opportunities which exist within their own customer base, better matching the Bank's range of products with the customers own needs.

The access to a wider range of customer and product information at each point of contact, will mean customers will not have to move from one part of the banking hall to another. Bank staff will increasingly become financial consultants capable of discussing and selling a wide range of products. Our vision about the Lloyds branch of the future is that it will be designed to be customer friendly

and easy to use, equipped with a sophisticated information technology system enabling customer needs to be identified and serviced efficiently. The bank will be staffed with skilled sales force developed through relevant recruitment and training.

Jacques Schouppe (Banque Paribas - Belgium)

In terms of strategy, contrary to what a couple of other institutions are planning BPB will not engage in diversification. Instead, it will adopt a niche strategy with a more selective approach to the market - focusing on specific markets and offering specific products to those markets. In summary we will be taken a more client oriented rather than a pure product oriented approach. We study specific segments and attempt to adjust our products to the needs of that specific type of client. It is also consistent with the general trend towards improved quality of service. A total quality control programme has been started to reinforce this strategy. Some other banks will probably choose specialization in niche strategies by focusing upon particular industries and products, where alliance with industrial and financial groups will be expanded or focusing in geographic areas or geographical presence adjustment. We will observe in the mid 1990's the strategies of the major banks and their new competitors in direct competition with one another in a largely deregulated

world.

APPENDIX 3 - OECD Portugal's survey

The OECD Portugal 88\89 survey when referring to the Portuguese financial system summarised in the following form:

" For the last 15 years the financing of the economy rested solely on the banking sector, made up of commercial banks, deposit banks and an investment bank. With the exception of three foreign banks, almost the whole of the banking system was nationalized. Alongside the banks there were a certain number of financial institutions (investment or leasing companies or semi-financial government organizations) which contributed to investment financing but were not authorised to take deposits.

Up to 1984, both the public and private sectors were financed by the banking sector which collected almost all households savings in the form of deposits.

(In 1984, 99 per cent of households financial assets consisted of sight or term deposits with the banking system).

The sources of financing and the way it is channelled have been much more diversified since 1984.

First, bank financing no longer predominates, having accounted in 1986 and 1987 for only 25 per cent on average of the increase in corporate financial liabilities, compared with 75 per cent in 1984. Second, the capital market has grown steadily, so that it accounted in 1987 for 23 per cent of corporate financing compared with almost nothing in 1984.

The strengthening and diversification of the banking system was achieved by opening it up to international competition through allowing a number of foreign banks to open branches in Portugal and also through allowing a number of new private Portuguese banks to enter the market place.

In addition, the banks have moved gradually along the road towards privatisation, by opening up their capital to the private sector in the form of equity certificates.

The government has also encouraged the development of new financial institutions, authorising the creation of investment funds and pension funds. Moreover, competition between commercial and investment banks on one hand and other specialized credit institutions on the other has been stepped up, allowing the latter to take residents deposits in excess of one year and the former to extend medium-term mortgage loans.

With the object of diversifying savings instruments Banks were authorized as of 1987 to issue marketable certificates of deposits with maturities of up to five years and negotiable rates of interest.

APPENDIX 4 - QUESTIONNAIRE 1 DESIGN

A.4 - The questionnaire

- 1- Which banks do you know or have you heard about?
- 2- In addition to those, do you know or have heard about any of these? (a list with the name of all the banks operating in Portugal was shown)
- 3- Do you have any demand deposit bank account?
- 4- Do you have any time deposit bank account?
- 5- As whole how many bank demand deposit accounts do you have? (if yes in 3)
- 6- Do you receive your wages by bank transfer?
- 7- Trough what bank? (if yes in 6)
- 8- The choice of the bank was made by yourself or by the corporation you work for? (if yes in 6)
- 9- For how long have you been a client of the bank... (answered in 7) ?
- 10- In the last 12 months have you quit the service of any bank? Which/What?
- 11- What is the bank that you have more contacts with? Why?
- 12- What is the level of satisfaction that you have using the bank... (answered in 11) services?  
levels 1 to 5 ( 0 - do not know)  
5- The highest satisfaction level  
1- Any satisfaction at all



13- In addition to the time or demand deposits do you use any of this bank services?

.Payment of electricity bills

.Mortgage

.Payment of telephone bills

.Payment of water bill

.Foreign exchange

.Tax payment

.Buy, sell and safeguard of bonds and securities

14- What bank do you use for...(each service answered yes in 13)?

15- Do you have any bank debit card? Which of them?

16- From what bank?

17- How many debit cards have you got?

18- For how long have you got a debit card?

19- In what frequency do you use this kind of cards?

20- Have you ever use them at ATM's?

21- Have you ever use them as EFTPOS in shops or petrol stations?

22- Do you use them in ATM's frequently or sporadically?

23- And as EFTPOS?

24- In which kind of situations do you use debit cards?

25- What was the amount of money that you transferred the last time you used a debit card?

26- Have you got any credit card?

27- For how long have you got a credit card?

28- In what frequency do you use your credit card? (if yes in 27)

29- What is the average monthly amount of payments that you do with credit card?

30- Have you got any saving account?

31- In what institution? (if yes in 30)

32- Have you got any corporation stock/shares?

33- Have you got treasury bills?

APPENDIX 5 - QUESTIONNAIRE 2 DESIGN

A.5 - The questionnaire

1- What was the main reason to choose your bank instead of another?

2- Any other reason?

3- What level of importance do you give to each of the following factors when choosing a bank?

levels 1 to 5, (0 - do not know)

5- too much important

1- not important

.localization

.image and style

.branch decoration

.advertisement

.presents

.staff sympathy

.time queueing

.bank prestige

.business links with the corporation you work for

.number and quality of statements

.interest rate

.operations costs

.international relations of the bank

.facility to obtain credit

.security and stability

4- The fact of a bank being or not being Portuguese is important for you?

5- What level of importance? (if yes in 4)

levels 1 to 5 (0 - do not know)

5- too much important

1- not important

6- Please classify your bank for each of the following factors:

levels 1 to 5 (0 - do not know)

5 - very good

1 - very bad

.localization

.image and style

.branch decoration

.advertisement

.presents

.staff sympathy

.time queueing

.bank prestige

.business links with the corporation you work for

.number and quality of statements

- .interest rate
- .operations costs
- .international relations of the bank
- .facility to obtain credit
- .security and stability

7- What kind of problems and unpleasant facts do you face in your relations with the banks in general?

8- Of the following services which would you like your bank to provide?

- .home mortgages
- .car loans
- .loans for other goods
- .automatic funds transfer
- .tax payment
- .tax declaration fill in

9- Any other service?

10- Do you see yourself using in the near future just EFTPOS in your shopping?

11- What do you think about this?

level 1 to 5 (0 - do not know)

5 - very good

1 - very bad

12- Do you find any kind of problems in the exclusive use of cards and electronic money transfers?

13- Do you see a bank bankruptcy as a possibility?

14- Are you thinking of changing bank?

15- Why?

16- What is the bank you most do business with?

17- Do you have any comments about this subject?

APPENDIX 6 - QUESTIONNAIRE 3 DESIGN



A.6 - The questionnaire

1- Which of the following reasons, as a company responsible, made you choose the bank or the banks you do business with?

- .localization
- .to get credit
- .interest rate
- .good relations with staff
- .good informations with the statements

2- Any other reason?

3- Which of the following bank services, as a company responsible do you utilise?

- .money deposits
- .money draws
- .receive payments \ realise payments
- .loans
- .buy and sell shares, bonds, treasury bills or other financial products
- .issue of bonds or stock
- .consultancy services
- .cash management

4- Any other service?

5- What other kind of services would you like the banks to provide?

6- Please indicate your level of agreement towards a total bank responsibility of their corporate clients cash management

(0 - do not know)

1 - agree

2 - indifferent

3 - disagree

7- Why?

8- What is your opinion about the following hypothetical law:

'Every transaction must be made through a bank account. This bank account is linked to a fiscal number, individual or corporate.'

level 1 to 5 (0 - do not know)

1 - fully agree

5 - fully disagree

9- What is your opinion about the future of EFT at the following levels:

.Corporate / Home banking

.EFTPOS

1 - essential

2 - dispensable

10- How do you see this evolution in terms of fiscal control?

level 1 to 5 (0 - do not know)

1 - much more control

5 - much less control

11- Do you support the idea that tax evasion is a reality in Portugal?

12- What is this fact effect, from your point of view, on the economical development and growth of the country? (if yes in 11)

level 1 to 5 (0 - do not know)

1 - very prejudicial

5 - lot favourable

13- Do you find the Portuguese state bureaucratic apparatus

.over weight

.excessively disorganized

.too ineffective

1 - Yes

2 - No

14- In your opinion, what is this fact effect on the  
economical development and growth of the country? (if yes in  
13)

level 1 to 5 (0 - do not know)

1 - very prejudicial

5 - lot favourable

15- Do you support the idea that the economic development  
and modernization are prejudiced by the delay impost by the  
public services?

1 - yes

2 - no

A.7 - Questionnaire 2 statistical tables

## QUESTIONNAIRE 2

WHAT WAS THE MAIN REASON TO CHOOSE YOUR  
BANK INSTEAD OF ANOTHER ?

Histogram of C1 N = 69 N\* = 3

Midpoint Count

speed	1	3	***
localization	2	26	*****
trust	3	8	*****
image	4	3	***
tradition	5	9	*****
int rate	6	2	**
good service	7	4	****
gd brnch netwrk	8	1	*
wages trnsfr	9	8	*****
security	10	3	***
friendly staff	11	2	**

ANY OTHER ?

Histogram of C2 N = 33 N\* = 39

Midpoint Count

speed	1	4	****
localization	2	10	*****
trust	3	1	*
image	4	5	*****
tradition	5	2	**
int rate	6	4	****
good service	7	2	**
gd brnch ntwrk	8	1	*
wages trnsfr	9	2	**
security	10	2	**

WHAT LEVEL OF IMPORTANCE DO YOU GIVE TO EACH OF THE FOLLOWING FACTORS WHEN CHOOSING A BANK ?

5- GREAT IMPORTANCE  
 1- ANY IMPORTANCE  
 0- DO NOT KNOW

LOCALIZATION

Histogram of C3 N = 72

Midpoint	Count	
1	1	*
2	4	****
3	19	*****
4	35	*****
5	13	*****

IMAGE AND STYLE

Histogram of C4 N = 72

Midpoint	Count	
0	3	***
1	3	***
2	14	*****
3	38	*****
4	11	*****
5	3	***

## BRANCH DECORATION

Histogram of C5 N = 72

Midpoint	Count	
0	1	*
1	7	*****
2	26	*****
3	31	*****
4	6	*****
5	1	*

## ADVERTISEMENT

Histogram of C6 N = 72

Midpoint	Count	
0	3	***
1	12	*****
2	30	*****
3	25	*****
4	1	*
5	1	*



PRESENTS \ OFFERS

Histogram of C7 N = 72

Midpoint	Count	
0	8	*****
1	17	*****
2	25	*****
3	12	*****
4	7	*****
5	3	***

STAFF AFFECTION

Histogram of C8 N = 71 N\* = 1

Midpoint	Count	
0	1	*
1	0	
2	2	**
3	16	*****
4	42	*****
5	10	*****

TIME QUEUEING

Histogram of C9 N = 72

Midpoint	Count	
0	2	**
1	0	
2	1	*
3	11	*****
4	23	*****
5	35	*****

## BANK PRESTIGE

Histogram of C10    N = 71    N\* = 1

Midpoint	Count	
0	1	*
1	0	
2	3	***
3	30	*****
4	30	*****
5	7	*****

## LINKS WITH THE CORPORATION YOU WORK FOR

Histogram of C11    N = 70    N\* = 2

Midpoint	Count	
0	13	*****
1	5	*****
2	12	*****
3	18	*****
4	16	*****
5	6	*****

## NUMBER AND QUALITY OF STATEMENTS

Histogram of C12    N = 69    N\* = 3

Midpoint	Count	
0	3	***
1	1	*
2	9	*****
3	23	*****
4	22	*****
5	11	*****

## INTEREST RATE

Histogram of C13    N = 71    N\* = 1

Midpoint    Count

0	2	**
1	1	*
2	2	**
3	12	*****
4	24	*****
5	30	*****

## OPERATIONS COST

Histogram of C14    N = 72

Midpoint    Count

0	4	****
1	1	*
2	8	*****
3	19	*****
4	19	*****
5	21	*****

## INTERNATIONAL RELATIONS OF THE BANK

Histogram of C15    N = 71    N\* = 1

Midpoint    Count

0	12	*****
1	3	***
2	16	*****
3	24	*****
4	15	*****
5	1	*

ASY TO OBTAIN CREDIT

istogram of C16 N = 72

idpoint	Count	
0	4	****
1	1	*
2	8	*****
3	14	*****
4	29	*****
5	16	*****

SECURITY AND STABILITY

istogram of C17 N = 72

idpoint	Count	
0	2	**
1	0	
2	1	*
3	14	*****
4	24	*****
5	31	*****

THE FACT OF A BANK BEING OR NOT PORTUGUESE IS IMPORTANT FOR YOU ?

istogram of C18 N = 72

idpoint	Count	
0	45	*****
1	27	*****

WHAT LEVEL OF IMPORTANCE ?

istogram of C19 N = 40 N\* = 32

idpoint	Count	
0	7	*****
1	3	***
2	4	****
3	14	*****
4	9	*****
5	3	***

CLASSIFY YOUR BANK FOR EACH OF THE FOLLOWING FACTORS

- 5- VERY GOOD
- 1- VERY BAD
- 0- DO NOT KNOW

LOCALIZATION

Histogram of C20 N = 72

Midpoint	Count	
2	2	**
3	13	*****
4	30	*****
5	27	*****

IMAGE AND STYLE

Histogram of C21 N = 71 N\* = 1

Midpoint	Count	
0	1	*
1	0	
2	5	*****
3	19	*****
4	37	*****
5	9	*****

BRANCH DECORATION

Histogram of C22 N = 71 N\* = 1

Midpoint	Count	
0	1	*
1	2	**
2	7	*****
3	30	*****
4	26	*****
5	5	*****

ADVERTISEMENT

Histogram of C23 N = 70 N\* = 2

Midpoint	Count	
0	4	****
1	0	
2	15	*****
3	34	*****
4	16	*****
5	1	*

OFFERS AND PRESENTS

Histogram of C24 N = 71 N\* = 1

Midpoint	Count	
0	14	*****
1	6	*****
2	30	*****
3	16	*****
4	5	*****

STAFF AFFECTION

Histogram of C25 N = 72

Midpoint	Count	
1	7	*****
2	4	****
3	20	*****
4	30	*****
5	11	*****

TIME QUEUEING

Histogram of C26 N = 71 N\* = 1

Midpoint	Count	
0	1	*
1	9	*****
2	12	*****
3	24	*****
4	16	*****
5	9	*****

BANK PRESTIGE

Histogram of C27 N = 71 N\* = 1

Midpoint	Count	
0	1	*
1	0	
2	3	***
3	17	*****
4	41	*****
5	9	*****

LINKS WITH CORPORATION YOU WORK FOR

Histogram of C28 N = 68 N\* = 4

Midpoint	Count	
0	27	*****
1	3	***
2	7	*****
3	4	****
4	22	*****
5	5	*****

## NUMBER AND QUALITY OF STATEMENTS

Histogram of C29 N = 71 N\* = 1

Midpoint	Count	
0	4	****
1	1	*
2	8	*****
3	23	*****
4	30	*****
5	5	*****

## INTEREST RATE

Histogram of C30 N = 71 N\* = 1

Midpoint	Count	
0	6	*****
1	0	
2	12	*****
3	24	*****
4	20	*****
5	9	*****

## OPERATIONS COST

Histogram of C31 N = 70 N\* = 2

Midpoint	Count	
0	12	*****
1	5	*****
2	8	*****
3	29	*****
4	12	*****
5	4	****



## INTERNATIONAL RELATIONS OF THE BANK

Histogram of C32 N = 71 N\* = 1

Midpoint	Count	
0	26	*****
1	2	**
2	5	*****
3	19	*****
4	18	*****
5	1	*

## EASY TO OBTAIN CREDIT

Histogram of C33 N = 71 N\* = 1

Midpoint	Count	
0	23	*****
1	3	***
2	6	*****
3	16	*****
4	19	*****
5	4	****

## SECURITY AND STABILITY

Histogram of C34 N = 71 N\* = 1

Midpoint	Count	
0	4	****
1	0	
2	2	**
3	15	*****
4	34	*****
5	16	*****

WHAT KIND OF PROBLEMS AND UNPLEASANT FACTORS  
DO YOU FACE IN YOUR RELATIONS WITH THE BANKS IN GENERAL?

Histogram of C35 N = 50 N\* = 22

Midpoint	Count		
none	0	12	*****
time queueing	1	23	*****
slow transfer	2	5	*****
not enough stmt	3	2	**
small n of serv	4	2	**
small n of invst pr	5	0	
prblm to obtn crdt	6	2	**
old forms to fill	7	0	
grt int rate differ	8	3	***
rude staff	9	1	*

WHAT KIND TYPE OF THE FOLLOWING PRODUCTS AND SERVICES  
WOULD YOU LIKE THE BANKS TO OFFER ?

MORTGAGE

Histogram of C36 N = 72

Midpoint	Count		
N	0	27	*****
Y	1	45	*****

CAR LOANS

Histogram of C37 N = 72

Midpoint	Count		
N	0	44	*****
Y	1	28	*****

ANS FOR OTHER GOODS

istogram of C38 N = 72

idpoint	Count	
0	42	*****
1	30	*****

UTOMATIC FUNDS TRANSFER

istogram of C39 N = 72

idpoint	Count	
0	24	*****
1	48	*****

AX PAYMENT

istogram of C40 N = 72

idpoint	Count	
0	31	*****
1	41	*****

AX DECLARATION ELABORATION

istogram of C41 N = 72

idpoint	Count	
0	40	*****
1	32	*****

THERS

istogram of C42 N = 1 N\* = 71

idpoint	Count	
1	1	*

istogram of C43    N = 1    N\* = 71

idpoint	Count	
1	1	*

istogram of C44    N = 1    N\* = 71

idpoint	Count	
1	1	*

O YOU SEE, IN A NEAR FUTURE, THE EXCLUSIVE USE OF  
EFTPOS IN THE SHOPING ?

istogram of C45    N = 71    N\* = 1  
ach \* represents 2 obs.

idpoint	Count	
0	7	****
1	64	*****

WHAT IS YOUR OPINION ABOUT THAT?

istogram of C46    N = 69    N\* = 3

idpoint	Count	
0	2	**
1	1	*
2	2	**
3	3	***
4	24	*****
5	37	*****

DO YOU SEE YOURSELF, IN A CLOSE FUTURE, USING A HOME COMPUTER  
IN YOUR BANK TRANSACTIONS ?

Histogram of C47 N = 72

Midpoint Count

N	0	22	*****
Y	1	50	*****

WHAT IS YOUR OPINION ABOUT THIS ?

Histogram of C48 N = 69 N\* = 3

Midpoint Count

0	5	*****
1	3	***
2	1	*
3	3	***
4	23	*****
5	34	*****

DO YOU FIND ANY PROBLEM IN THE EXCLUSIVE USE  
OF CARDS AND ELECTRONIC TRANSFERS ?

Histogram of C49 N = 65 N\* = 7

Each \* represents 2 obs.

Midpoint Count

NO	1	57	*****
	2	4	**
	3	1	*
	4	1	*
	5	2	*

DO YOU FIND A BANK INSOLVENCY AS A POSSIBLE FACT ?

Histogram of C50 N = 72

Midpoint Count

N	0	33	*****
Y	1	39	*****

ARE YOU THINKING ON CHANGING BANK ?

Histogram of C51 N = 72

Each \* represents 2 obs.

Midpoint Count

DO NOT KNOW	0	64	*****
YES	1	7	****
NO	2	1	*

WHY ?

Histogram of C52 N = 56 N\* = 16

Midpoint Count

SATISFIED	1	31	*****
NO REASON	2	12	*****
BD SERV\TIM QUE	3	5	*****
OTHERS	4	2	**
	5	2	**
	6	1	*
	7	1	*
	8	2	**

WHAT IS YOU BANK ?

Histogram of C53 N = 65 N\* = 7

Midpoint Count

	Midpoint	Count	
SEVERAL	0	2	**
BESCL	1	10	*****
UBP	2	4	****
BPSM	3	6	*****
CGD	4	19	*****
BTA	5	4	****
BPA	6	9	*****
CPP	7	3	***
BCP	8	3	***
LLOYDS	9	1	*
BNU	10	2	**
BFB	11	1	*
CCAM	12	1	*

ANY COMMENT ?

Histogram of C54 N = 6 N\* = 66

Midpoint Count

1	6	*****
---	---	-------

SEX

Histogram of C55 N = 72

Midpoint Count

M	1	37	*****
F	2	35	*****

AGE

Histogram of C56 N = 72

Midpoint Count

< 35	1	47	*****
[35,65]	2	22	*****
65 <	3	3	***

TB > corre c53,c51

orrelation of C53 and C51 = -0.092

TB > corre c53 c35

orrelation of C53 and C35 = 0.001

TB > corre c51, c35

orrelation of C51 and C35 = -0.121

LATIONSHIP BETWEEN PROBLEMS WITH BANKS  
D THE BANK YOU DO BUSINESS WITH

TB > oneway c51,c35

NALYSIS OF VARIANCE ON C51

SOURCE	DF	SS	MS	F	P
35	7	0.175	0.025	0.24	0.972
RROR	42	4.325	0.103		
TOTAL	49	4.500			

INDIVIDUAL 95 PCT CI'S FOR MEAN  
BASED ON POOLED STDEV

LEVEL	N	MEAN	STDEV	CI Lower	CI Upper
0	12	0.0833	0.2887	(-----*-----)	
1	23	0.1304	0.3444	(--*--)	
2	5	0.2000	0.4472	(-----*-----)	
3	2	0.0000	0.0000	(-----*-----)	
4	2	0.0000	0.0000	(-----*-----)	
6	2	0.0000	0.0000	(-----*-----)	
8	3	0.0000	0.0000	(-----*-----)	
9	1	0.0000	0.0000	(-----*-----)	

OOLED STDEV = 0.3209

-0.40      -0.00      0.40



RELATIONSHIP BETWEEN THE BANK AND THE DESIRE TO  
 CHANGE BANK

TB > oneway c51, c53

ANALYSIS OF VARIANCE ON C51

SOURCE	DF	SS	MS	F	P
ERROR	12	0.746	0.062	0.36	0.972
TOTAL	52	9.008	0.173		
TOTAL	64	9.754			

INDIVIDUAL 95 PCT CI'S FOR MEAN  
 BASED ON POOLED STDEV

EVEL	N	MEAN	STDEV	CI Lower	CI Upper
0	2	0.0000	0.0000	(-----*-----)	(-----*-----)
1	10	0.2000	0.4216	(-----*-----)	(-----*-----)
2	4	0.0000	0.0000	(-----*-----)	(-----*-----)
3	6	0.1667	0.4082	(-----*-----)	(-----*-----)
4	19	0.2105	0.5353	(-----*-----)	(-----*-----)
5	4	0.2500	0.5000	(-----*-----)	(-----*-----)
6	9	0.0000	0.0000	(-----*-----)	(-----*-----)
7	3	0.3333	0.5774	(-----*-----)	(-----*-----)
8	3	0.0000	0.0000	(-----*-----)	(-----*-----)
9	1	0.0000	0.0000	(-----*-----)	(-----*-----)
10	2	0.0000	0.0000	(-----*-----)	(-----*-----)
11	1	0.0000	0.0000	(-----*-----)	(-----*-----)
12	1	0.0000	0.0000	(-----*-----)	(-----*-----)

POOLED STDEV = 0.4162

-0.50                      0.00                      0.50

RELATIONSHIP BETWEEN THE BANK AND PROBLEMS WITH BANKS

TB > oneway c35,c53

ANALYSIS OF VARIANCE ON C35

SOURCE	DF	SS	MS	F	P
ERROR	10	37.47	3.75	0.93	0.522
TOTAL	34	137.51	4.04		
TOTAL	44	174.98			

INDIVIDUAL 95 PCT CI'S FOR MEAN  
BASED ON POOLED STDEV

LEVEL	N	MEAN	STDEV	CI
0	2	1.000	1.414	(-----*-----)
1	2	4.000	2.828	(-----*-----)
2	4	1.750	2.062	(-----*-----)
3	4	1.000	0.816	(-----*-----)
4	16	1.500	2.251	(--*--)
5	2	2.000	1.414	(-----*-----)
6	7	0.714	0.488	(---*---)
7	3	0.667	0.577	(-----*-----)
8	3	3.333	4.041	(-----*-----)
9	1	4.000	0.000	(-----*-----)
12	1	1.000	0.000	(-----*-----)

POOLED STDEV = 2.011

0.0                      3.5                      7.0

TB > stop  
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## QUESTIONNAIRE 2

TB &gt; DESCRIBE C1-C56

	N	N*	MEAN	MEDIAN	TRMEAN	STDEV	SEMEAN
1	69	3	4.464	3.000	4.333	2.968	0.357
2	33	39	4.273	4.000	4.103	2.787	0.485
3	72	0	3.764	4.000	3.812	0.864	0.102
4	72	0	2.833	3.000	2.875	1.021	0.120
5	72	0	2.514	3.000	2.516	0.888	0.105
6	72	0	2.167	2.000	2.187	0.919	0.108
7	72	0	2.028	2.000	1.984	1.278	0.151
8	71	1	3.8028	4.0000	3.8571	0.8215	0.0975
9	72	0	4.194	4.000	4.328	1.057	0.125
10	71	1	3.535	4.000	3.571	0.842	0.100
11	70	2	2.529	3.000	2.532	1.585	0.189
12	69	3	3.348	3.000	3.429	1.198	0.144
13	71	1	4.042	4.000	4.190	1.139	0.135
14	72	0	3.542	4.000	3.672	1.352	0.159
15	71	1	2.423	3.000	2.460	1.370	0.163
16	72	0	3.542	4.000	3.672	1.299	0.153
17	72	0	4.097	4.000	4.219	1.064	0.125
18	72	0	0.3750	0.0000	0.3594	0.4875	0.0575
19	40	32	2.600	3.000	2.611	1.549	0.245
20	72	0	4.1389	4.0000	4.1875	0.8102	0.0955
21	71	1	3.662	4.000	3.714	0.894	0.106
22	71	1	3.310	3.000	3.349	0.950	0.113
23	70	2	2.871	3.000	2.968	1.006	0.120
24	71	1	1.887	2.000	1.873	1.178	0.140
25	72	0	3.472	4.000	3.531	1.126	0.133
26	71	1	3.014	3.000	3.032	1.248	0.148
27	71	1	3.7465	4.0000	3.8095	0.8404	0.0997
28	68	4	2.088	2.000	2.048	1.922	0.233
29	71	1	3.254	3.000	3.349	1.155	0.137
30	71	1	3.113	3.000	3.190	1.315	0.156
31	70	2	2.514	3.000	2.516	1.462	0.175

32	71	1	2.056	3.000	2.048	1.715	0.203
33	71	1	2.239	3.000	2.206	1.768	0.210
34	71	1	3.732	4.000	3.889	1.183	0.140
35	50	22	1.840	1.000	1.523	2.342	0.331
36	72	0	0.6250	1.0000	0.6406	0.4875	0.0575
37	72	0	0.3889	0.0000	0.3750	0.4909	0.0579
38	72	0	0.4167	0.0000	0.4062	0.4965	0.0585
39	72	0	0.6667	1.0000	0.6875	0.4747	0.0559
40	72	0	0.5694	1.0000	0.5781	0.4986	0.0588
41	72	0	0.4444	0.0000	0.4375	0.5004	0.0590
42	1	71	1.0000	1.0000	1.0000	*	*
43	1	71	1.0000	1.0000	1.0000	*	*
44	1	71	1.0000	1.0000	1.0000	*	*
45	71	1	0.9014	1.0000	0.9524	0.3002	0.0356
46	69	3	4.275	5.000	4.429	1.110	0.134
47	72	0	0.6944	1.0000	0.7187	0.4639	0.0547
48	69	3	4.000	4.000	4.143	1.475	0.178
49	65	7	1.262	1.000	1.102	0.834	0.103
50	72	0	0.5417	1.0000	0.5469	0.5018	0.0591
51	72	0	0.1250	0.0000	0.0625	0.3729	0.0440
52	56	16	2.089	1.000	1.820	1.781	0.238
53	65	7	4.354	4.000	4.220	2.683	0.333
54	6	66	1.0000	1.0000	1.0000	0.0000	0.0000
55	72	0	1.4861	1.0000	1.4844	0.5033	0.0593
56	72	0	1.3889	1.0000	1.3281	0.5705	0.0672

	MIN	MAX	Q1	Q3
1	1.000	11.000	2.000	7.000
2	1.000	10.000	2.000	6.000
3	1.000	5.000	3.000	4.000
4	0.000	5.000	2.000	3.000
5	0.000	5.000	2.000	3.000
6	0.000	5.000	2.000	3.000
7	0.000	5.000	1.000	3.000
8	0.0000	5.0000	3.0000	4.0000
9	0.000	5.000	4.000	5.000
10	0.000	5.000	3.000	4.000
11	0.000	5.000	1.000	4.000
12	0.000	5.000	3.000	4.000
13	0.000	5.000	4.000	5.000
14	0.000	5.000	3.000	5.000
15	0.000	5.000	2.000	3.000
16	0.000	5.000	3.000	4.000
17	0.000	5.000	4.000	5.000
18	0.0000	1.0000	0.0000	1.0000
19	0.000	5.000	1.250	4.000
20	2.0000	5.0000	4.0000	5.0000
21	0.000	5.000	3.000	4.000
22	0.000	5.000	3.000	4.000
23	0.000	5.000	2.000	3.250
24	0.000	4.000	1.000	3.000
25	1.000	5.000	3.000	4.000
26	0.000	5.000	2.000	4.000
27	0.0000	5.0000	3.0000	4.0000
28	0.000	5.000	0.000	4.000
29	0.000	5.000	3.000	4.000
30	0.000	5.000	2.000	4.000
31	0.000	5.000	1.750	3.000
32	0.000	5.000	0.000	4.000
33	0.000	5.000	0.000	4.000
34	0.000	5.000	3.000	4.000
35	0.000	9.000	0.750	2.000
36	0.0000	1.0000	0.0000	1.0000
37	0.0000	1.0000	0.0000	1.0000
38	0.0000	1.0000	0.0000	1.0000
39	0.0000	1.0000	0.0000	1.0000
40	0.0000	1.0000	0.0000	1.0000
41	0.0000	1.0000	0.0000	1.0000
42	1.0000	1.0000	*	*
43	1.0000	1.0000	*	*
44	1.0000	1.0000	*	*
45	0.0000	1.0000	1.0000	1.0000
46	0.000	5.000	4.000	5.000
47	0.0000	1.0000	0.0000	1.0000
48	0.000	5.000	4.000	5.000
49	1.000	5.000	1.000	1.000

50	0.0000	1.0000	0.0000	1.0000
51	0.0000	2.0000	0.0000	0.0000
52	1.000	8.000	1.000	2.000
53	0.000	12.000	2.500	6.000
54	1.0000	1.0000	1.0000	1.0000
55	1.0000	2.0000	1.0000	2.0000
56	1.0000	3.0000	1.0000	2.0000

TB > STOP

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A.8 - Banking part of questionnaire 3  
statistical tables

questionnaire 3

Worksheet retrieved from file: EMPRESAS.MTW  
TB > INFO

COLUMN	NAME	COUNT	MISSING
1		40	
2		40	
3		40	
4		40	
5		40	
6		40	
7		40	
8		40	
9		40	
10		40	
11		40	
12		40	
13		40	
14		40	
15		40	
16		40	
17		40	1
18		40	
19		40	1
20		40	
21		40	10
22		40	
23		40	1
24		40	1
25		40	1
26		40	1
27		40	3
28		40	6
29		40	7
30		40	1

CONSTANTS USED: NONE



TB &gt; DESCRIBE C1-C30

	N	N*	MEAN	MEDIAN	TRMEAN	STDEV	SEMEAN
1	40	0	0.6000	1.0000	0.6111	0.4961	0.0784
2	40	0	0.6750	1.0000	0.6944	0.4743	0.0750
3	40	0	0.1500	0.0000	0.1111	0.3616	0.0572
4	40	0	0.1750	0.0000	0.1389	0.3848	0.0608
5	40	0	0.00000	0.00000	0.00000	0.00000	0.00000
6	40	0	0.8750	1.0000	0.9167	0.3349	0.0530
7	40	0	0.8500	1.0000	0.8889	0.3616	0.0572
8	40	0	0.8500	1.0000	0.8889	0.3616	0.0572
9	40	0	0.7500	1.0000	0.7778	0.4385	0.0693
10	40	0	0.1000	0.0000	0.0556	0.3038	0.0480
11	40	0	0.0250	0.0000	0.0000	0.1581	0.0250
12	40	0	0.0750	0.0000	0.0278	0.2667	0.0422
13	40	0	0.2000	0.0000	0.1667	0.4051	0.0641
14	40	0	0.00000	0.00000	0.00000	0.00000	0.00000
15	40	0	1.825	2.000	1.806	0.844	0.133
16	40	0	3.225	3.000	3.194	1.387	0.219
17	39	1	0.6154	1.0000	0.6286	0.4929	0.0789
18	40	0	0.5750	1.0000	0.5833	0.5006	0.0792
19	39	1	1.359	1.000	1.286	0.668	0.107
20	40	0	1.450	1.000	1.417	0.749	0.118
21	30	10	1.767	2.000	1.731	0.626	0.114
22	40	0	0.9000	1.0000	0.9444	0.3038	0.0480
23	39	1	0.6154	1.0000	0.6286	0.4929	0.0789
24	39	1	0.5385	1.0000	0.5429	0.5050	0.0809
25	39	1	1.974	2.000	1.943	0.628	0.101
26	39	1	0.7949	1.0000	0.8286	0.4091	0.0655
27	37	3	0.7027	1.0000	0.7273	0.4634	0.0762
28	34	6	0.9118	1.0000	0.9333	0.3788	0.0650
29	33	7	0.5152	0.0000	0.4828	0.5658	0.0985
30	39	1	1.1026	1.0000	1.1143	0.5024	0.0804

	MIN	MAX	Q1	Q3
1	0.0000	1.0000	0.0000	1.0000
2	0.0000	1.0000	0.0000	1.0000
3	0.0000	1.0000	0.0000	0.0000
4	0.0000	1.0000	0.0000	0.0000
5	0.00000	0.00000	0.00000	0.00000
6	0.0000	1.0000	1.0000	1.0000
7	0.0000	1.0000	1.0000	1.0000
8	0.0000	1.0000	1.0000	1.0000
9	0.0000	1.0000	0.2500	1.0000
10	0.0000	1.0000	0.0000	0.0000
11	0.0000	1.0000	0.0000	0.0000
12	0.0000	1.0000	0.0000	0.0000
13	0.0000	1.0000	0.0000	0.0000
14	0.00000	0.00000	0.00000	0.00000
15	1.000	3.000	1.000	3.000
16	1.000	6.000	2.000	4.000
17	0.0000	1.0000	0.0000	1.0000
18	0.0000	1.0000	0.0000	1.0000
19	1.000	3.000	1.000	2.000
20	0.000	3.000	1.000	2.000
21	1.000	3.000	1.000	2.000
22	0.0000	1.0000	1.0000	1.0000
23	0.0000	1.0000	0.0000	1.0000
24	0.0000	1.0000	0.0000	1.0000
25	1.000	4.000	2.000	2.000
26	0.0000	1.0000	1.0000	1.0000
27	0.0000	1.0000	0.0000	1.0000
28	0.0000	2.0000	1.0000	1.0000
29	0.0000	2.0000	0.0000	1.0000
30	0.0000	2.0000	1.0000	1.0000

TB &gt; PRINT C1-C30

ROW	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C
1	0	1	0	0	0	1	1	0	1	0	0	0	
2	1	1	0	0	0	1	1	1	1	0	0	0	
3	1	0	1	0	0	1	1	1	0	0	0	1	
4	1	0	1	0	0	1	1	1	1	1	0	0	
5	1	0	0	1	0	1	1	1	1	0	0	0	
6	0	1	0	0	0	1	0	1	1	0	0	0	
7	0	1	0	0	0	1	1	1	1	0	0	0	
8	0	1	0	0	0	1	1	1	1	1	0	0	
9	1	1	0	0	0	1	1	1	1	0	0	0	
10	0	1	0	0	0	1	1	1	0	0	0	0	
11	0	1	0	1	0	1	1	1	1	0	0	0	
12	1	0	0	1	0	1	1	1	1	0	0	0	
13	0	1	0	1	0	1	0	0	1	0	0	0	
14	1	1	0	0	0	1	1	1	1	0	0	0	
15	1	0	0	0	0	0	0	1	1	0	0	0	
16	1	0	0	0	0	1	1	0	1	0	0	0	
17	0	1	0	0	0	1	1	1	1	0	0	0	
18	0	0	0	1	0	0	1	0	1	0	0	1	
19	0	1	1	0	0	1	1	1	1	0	0	0	
20	1	0	1	0	0	1	1	1	0	0	0	0	
21	1	1	0	0	0	1	0	0	0	1	0	0	
22	0	1	1	0	0	1	0	1	1	1	0	0	
23	1	1	0	1	0	1	1	1	1	0	0	0	
24	1	0	0	0	0	1	1	1	1	0	0	0	
25	1	1	0	0	0	1	1	1	1	0	0	0	
26	0	1	0	0	0	1	1	1	1	0	0	0	
27	0	1	0	0	0	0	1	1	1	0	0	0	
28	1	1	0	0	0	1	1	1	1	0	0	0	
29	0	1	0	0	0	1	1	1	0	0	0	0	
30	1	1	0	0	0	1	1	1	1	0	0	1	
31	1	0	0	0	0	1	1	1	0	0	1	0	
32	1	0	0	0	0	0	1	1	1	0	0	0	
33	1	1	0	0	0	1	1	1	1	0	0	0	
34	0	1	0	0	0	0	1	1	1	0	0	0	
35	1	1	0	0	0	1	1	1	1	0	0	0	
36	1	0	0	0	0	1	0	0	0	0	0	0	
37	0	1	0	0	0	1	1	1	1	0	0	0	
38	1	1	0	1	0	1	1	1	0	0	0	0	
39	1	1	0	0	0	1	1	1	0	0	0	0	
40	1	0	1	0	0	1	1	1	0	0	0	0	

ROW	C15	C16	C17	C18	C19	C20	C21	C22	C23	C24	C25
1	2	4	1	1	1	2	*	1	1	1	2
2	3	5	1	1	2	1	1	1	1	0	2
3	2	3	1	1	1	2	3	0	0	0	2
4	1	2	1	1	1	1	1	1	1	0	2
5	2	1	0	0	1	2	*	1	1	1	2
6	1	3	0	0	1	1	1	1	1	0	2
7	2	3	0	0	1	1	1	1	1	1	1
8	2	2	0	0	1	1	1	1	0	0	2
9	2	5	1	1	1	1	1	1	1	1	*
10	3	4	0	0	1	2	*	1	1	1	2
11	2	3	0	0	2	1	2	1	1	1	1
12	1	1	1	1	1	1	2	1	1	0	2
13	2	2	1	0	1	1	2	1	0	0	3
14	1	4	1	1	1	1	3	1	1	1	3
15	1	2	*	1	1	1	1	1	0	0	2
16	3	3	1	1	1	2	*	1	1	1	2
17	1	1	1	0	1	1	1	1	1	1	2
18	1	3	1	1	1	1	1	1	1	0	2
19	1	5	1	1	1	2	2	0	0	1	2
20	3	5	0	0	1	3	*	1	0	1	3
21	2	3	0	0	1	3	*	1	1	0	2
22	1	3	0	1	1	0	*	1	1	1	2
23	2	2	0	0	1	3	*	1	1	1	4
24	3	4	1	1	3	3	1	1	0	0	1
25	1	6	1	1	1	1	2	0	0	0	2
26	3	5	1	1	1	1	2	0	0	0	2
27	1	6	1	1	*	1	2	1	1	*	2
28	3	4	1	1	1	1	2	1	0	1	2
29	3	4	0	0	1	3	2	1	0	0	2
30	3	2	0	0	1	1	2	1	0	0	1
31	1	3	1	1	2	1	2	1	1	1	1
32	1	2	0	1	2	1	2	1	0	0	2
33	1	1	0	0	2	2	*	1	1	1	1
34	2	5	0	0	1	1	*	1	1	1	3
35	1	3	1	1	2	1	2	1	1	0	2
36	1	2	1	1	1	1	2	1	0	1	2
37	1	3	1	1	3	2	3	1	1	1	2
38	3	5	1	0	3	1	2	1	0	0	2
39	3	2	1	0	1	2	2	1	*	1	1
40	1	3	1	1	3	1	2	1	1	1	2

ROW	C27	C28	C29	C30
1	0	1	1	1
2	1	1	1	1
3	0	0	0	1
4	1	1	1	2
5	0	1	1	1
6	0	1	1	2
7	1	1	0	0
8	0	1	0	1
9	*	*	*	*
10	0	1	1	1
11	1	1	1	1
12	1	0	0	0
13	0	1	1	1
14	*	*	*	1
15	1	1	0	1
16	1	*	*	1
17	0	1	0	1
18	1	0	0	2
19	1	1	0	1
20	0	*	*	1
21	1	1	1	1
22	1	1	1	1
23	1	2	2	2
24	1	1	1	1
25	*	1	*	1
26	0	1	0	1
27	1	0	0	2
28	0	1	0	1
29	1	1	0	1
30	1	*	*	1
31	1	1	0	2
32	1	1	0	1
33	1	1	0	1
34	1	1	1	0
35	1	1	0	1
36	1	*	*	1
37	1	1	1	1
38	1	1	1	2
39	1	1	1	1
40	1	1	0	1

TB &gt;

MTB > HIST C1-C30

WHICH OF THE FOLLOWING REASONS, AS A COMPANY RESPONSABLE, MAKE  
YOU CHOOSE THE BANK(S) THAT YOU DO BUSINESS WITH ?

LOCALIZATION

Histogram of C1 N = 40

	Midpoint	Count	
NO	0	16	*****
YES	1	24	*****

CREDIT FACILITIES

Histogram of C2 N = 40

	Midpoint	Count	
NO	0	13	*****
YES	1	27	*****

INTEREST RATE

Histogram of C3 N = 40

	Midpoint	Count	
NO	0	34	*****
YES	1	6	*****

## GOOD RELATIONS WITH STAFF

Histogram of C4 N = 40

	Midpoint	Count	
NO	0	33	*****
YES	1	7	*****

## GOOD STATEMENT'S INFORMATION

Histogram of C5 N = 40

	Midpoint	Count	
NO	0	40	*****

WHICH OF THE FOLLOWING BANK SERVICES DO YOU USE ?

DEPOSITS

Histogram of C6 N = 40

	Midpoint	Count	
NO	0	5	*****
YES	1	35	*****

DRAWS

Histogram of C7 N = 40

	Midpoint	Count	
NO	0	6	*****
YES	1	34	*****

RECEIVEMENTS AND PAYMENTS

Histogram of C8 N = 40

	Midpoint	Count	
NO	0	6	*****
YES	1	34	*****



## LOANS

Histogram of C9 N = 40

	Midpoint	Count	
NO	0	10	*****
YES	1	30	*****

## BUY\SELL FINANCIAL ASSETS

Histogram of C10 N = 40

	Midpoint	Count	
NO	0	36	*****
YES	1	4	****

## SHARE ISSUE

Histogram of C11 N = 40

	Midpoint	Count	
NO	0	39	*****
YES	1	1	*

## CONSULTANCY

Histogram of C12 N = 40

	Midpoint	Count	
NO	0	37	*****
YES	1	3	***

## CASH MANAGEMENT

Histogram of C13 N = 40

	Midpoint	Count	
NO	0	32	*****
YES	1	8	*****

## FISCAL CONSULTANCY

Histogram of C14 N = 40

	Midpoint	Count	
NO	0	40	*****

HOW DO YOU SEE THE HYPOTHESIS OF A TOTAL RESPONSABILITY  
BY THE BANKS, OF THEIR CORPORATE CLIENTS CASH MANAGEMENT ?

Histogram of C15 N = 40

	Midpoint	Count	
AGREE	1	18	*****
INDIFFERENT	2	11	*****
DISAGREE	3	11	*****

WHAT IS YOUR OPINION ABOUT THE FOLLOWING HYPOTHETIC LAW:  
"EVERY TRANSACTION MUST BE MADE THROUGH A BANK ACCOUNT.  
EVERY BANK ACCOUNT IS LINKED TO A FISCAL NUMBER, INDIVIDUAL  
OR CORPORATE."

Histogram of C16 N = 40

	Midpoint	Count	
FULLY AGREE	1	4	****
AGREE	2	9	*****
AGREE IN PART	3	12	*****
DISAGREE	4	6	*****
FULLY DISAGRE	5	7	*****
DO NOT KNOW	6	2	**

HOW DO YOU SEE THE FUTURE OF EFT AT THE FOLLOWING LEVELS:

HOME \ CORPORATE BANKING

Histogram of C17 N = 39 N\* = 1

	Midpoint	Count	
DISPENSABLE	0	15	*****
ESSENTIAL	1	24	*****

EFTPOS

Histogram of C18 N = 40

	Midpoint	Count	
DISPENSABLE	0	17	*****
ESSENTIAL	1	23	*****

HOW DO YOU SEE THIS EVOLUTION IN TERMS OF FISCAL CONTROL ?

Histogram of C19 N = 39 N\* = 1

	Midpoint	Count	
MUCH MORE CONTROL	1	29	*****
	2	6	*****
LESS CONTROL	3	4	****

DO YOU THINK THE BANKS SHOULD:

IDENTIFY THE INDIVIDUALS, THE BUSINESS OPPORTUNITIES AND THE COMPANIES CREDIT WORTH ?

Histogram of C28 N = 34 N\* = 6

Midpoint	Count		
NO	0	4	****
YES	1	29	*****
DNK	2	1	*

FOLLOW THE GOVERNMENT INDICATIONS

Histogram of C29 N = 33 N\* = 7

Midpoint	Count		
NO	0	17	*****
YES	1	15	*****
DNK	2	1	*

DO YOU AGREE WITH THE CRIATION OF FINANCIAL MINIMUMS ?

Histogram of C30 N = 39 N\* = 1

Midpoint	Count		
NO	0	3	***
YES	1	29	*****
DNK	2	7	*****

MTB >

MTB > STOP

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A.9 - Tax evasion \ state apparatus part of  
questionnaire 3 statistical tables

DO YOU SUPPORT THE IDEA THAT TAX EVASION IS  
A REALITY IN PORTUGAL ?

Histogram of C20 N = 40

	Midpoint	Count	
YES	0	1	*
NO	1	25	*****
MAY BE	2	9	*****
DONOT KNOW	3	5	*****

WHAT IS THE EFFECT IN THE ECON DEVELOPMENT ?

Histogram of C21 N = 30 N\* = 10

	Midpoint	Count	
VERY PREJUDICIAL	1	10	*****
PREJUDICIAL	2	17	*****
INDIFFERENT	3	3	***

DO YOU FIND THE PORTUGUESE STAE BUREAUCRATIC  
APPARATUS:

OVERWEIGHT

Histogram of C22 N = 40

	Midpoint	Count	
NO	0	4	****
YES	1	36	*****

EXCESSIVELY DISORGANIZED

Histogram of C23 N = 39 N\* = 1

	Midpoint	Count	
NO	0	15	*****
YES	1	24	*****

TOO INEFFECTIVE

Histogram of C24 N = 39 N\* = 1

	Midpoint	Count	
NO	0	18	*****
YES	1	21	*****

DO YOU SUPPORT THE IDEA THAT ONE OF THE MOST IMPORTANT REASONS FOR THE FISCAL DISORGANIZATION IS THE OVERWEIGHT OF THE APPARATUS THAT DOES NOT PERMIT THE EVASION DETECTION ?

Histogram of C26 N = 39 N\* = 1

	Midpoint	Count	
NO	0	8	*****
YES	1	31	*****

DO YOU SUPPORT THE IDEA THAT THE ECONOMIC DEVELOPMENT AND MODERNIZATION ARE PREJUDICED BY THE DELAY IMPOST BY THE PUBLIC SERVICES ?

Histogram of C27 N = 37 N\* = 3

	Midpoint	Count	
NO	0	11	*****
YES	1	26	*****



A.9c - Conclusions of A.9

## A.9.c - Principal results

62.5% (25 out of 40) managers think that tax evasion is not a reality in Portugal despite the fact that 92.5% admit that the fact of tax evasion is very prejudicial to the Portuguese economic development.

77.5% of the managers in this sample, agree with the idea that the state apparatus is over weight.

They also agree that this fact is an important reason for the fiscal disorganisation as well as for the fiscal evasion non-detection.

It was found a non consistent level of answers (high levels were found on refusing the idea of tax evasion, but when tax evasion is given as a practice of other economic agents, almost all of the respondents agreed). This is probably due to the type of questions, and to the kind of techniques used in the data collection. The probability of a manager admitting tax evasion practice is very low.

A different technique and also a different questionnaire must be used to reach better conclusions on this subject.

This subject will not have a further development in this work because there is a lack of data and evidence.

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