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Banking Regulator Takes Control of Financially Troubled Banco Industrial

by LADB Staff

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In late February, the Comision Nacional Bancaria y de Valores (CNBV) assumed management of the Guadalajara-based Banco Industrial because its capitalization level had fallen below the required 8%. Banco Industrial, like many other banks in recent years, is being bailed out under the state savings-protection program Fondo Nacional de Proteccion al Ahorro (FOBAPROA). Since 1994, FOBAPROA has assumed management of 14 banks whose capitalization levels fell below the required percentage.

The government has recovered some of its costs by selling shares in the banks such as Banco Inverlat, Banca Cremi, Banco del Oriente, and Banco del Atlantico to large Mexican banks and foreign institutions, including Spain's Banco Bilbao Vizcaya (BBV) and Canada's Bank of Nova Scotia (see SourceMex, 02/21/96 and 07/10/96). The CNBV said Banco Industrial's capitalization level fell sharply because of a surge in overdue debt. As of early this year, the bank had 800 million pesos (US\$93.34 million) in overdue debt, compared with only 112 million pesos (US\$13.06 million) in January 1997.

The CNBV intervened despite Banco Industrial's recent agreement in principle to sell 51% of its stock to California-based Far East National Bank. Far East National is a subsidiary of Taiwan's SinoPac financial group, which has extensive operations in Southeast Asia. As part of the agreement, announced in late January, Far East National agreed to spend up to US\$60 million during a three-year period to strengthen Banco Industrial's finances.

The CNBV, however, said the sales agreement will be placed on hold, pending a comprehensive review of Banco Industrial's finances. Several bank mergers expected in early 1998 Banco Industrial's pending sale to Far East National is one of several banking-industry mergers that are either in process or that were completed early in 1998. These include the possible merger of Bancomer and Banca Promex, Banca Serfin's sale of minority shares to two foreign partners, and the sale of Bancrecer to overseas buyers.

The Bancomer-Promex merger could create the largest bank in Mexico, surpassing current leader Banamex. Bancomer, the country's second-largest bank, has offered as much as US\$150 million to acquire Banca Promex. Promex, with 398 branches throughout Mexico, became a major player in the banking market in 1996 through the acquisition of financially troubled Banco Union from FOBAPROA. The Bancomer-Promex partnership would be the second merger of Mexican financial institutions since late 1997. In December 1997, Banco Internacional (Bital) acquired financially troubled Banco del Atlantico and Banco del Sureste from FOBAPROA for 300 million pesos (US\$35 million).

With the transaction, Bital became the third-largest bank in Mexico, surpassing Banca Serfin. In the merger's downside, Bital closed 100 former branches of Banco del Atlantico and Banco del Sureste, laying off more than 5,000 employees. Banca Serfin, in an attempt to remain competitive, has also taken steps to expand operations. In late December, Hong Kong Shanghai Bank (HSBC Holdings) acquired a 20% share in Serfin for US\$174 million. In mid-February, US-investment bank J.P. Morgan paid US\$68 million to acquire an 8.6% share in Serfin. FOBAPROA also retains a 19% share in Serfin, which the government assumed after providing the bank with a financial restructuring package in June 1995 (see SourceMex, 07/05/95).

Serfin said the funds obtained from HSBC Holdings and J.P. Morgan will improve the bank's capitalization level, which was about 13.4% at the end of the third quarter of 1997. The bank had US\$11.27 billion pesos (US\$1.31 billion) in overdue loans in September 1997. Antonio del Valle, outgoing president of the Asociacion de Banqueros de Mexico (ABM), said he expected more bank mergers in the coming years. "The result will be bigger and healthier institutions," said Del Valle.

The next bank likely to announce a merger is Bancrecer, which is seeking US\$500 million to cover its overdue debts. Bancrecer executives say they are negotiating a merger with a foreign partner, but they also plan to obtain part of the needed funds from their own stockholders and from the bank's US-based insurance-industry partner Alliance Insurance. The foreign purchase of shares in Mexican banks, along with direct participation by US, Canadian, European, and Asian banks in Mexico, has greatly increased foreign presence in the Mexican banking sector.

Ernesto O'Farrill Santoscoy, a private banking-industry analyst with Grupo Bursametrica, predicts that foreigners will soon control 40% of the Mexican banking market. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb 25, reported at 8.57 pesos per US \$1.00] (Sources: Spanish news service EFE, 01/12/98; El Financiero International, 02/02/98; Excelsior, 01/20/98, 02/21/98; Reuter, 01/21/98, 02/20/98, 02/23/98; El Economista, 01/20/98, 02/24/98; El Universal, 01/13/98, 01/20/98, 02/02/98, 02/16/98, 02/19/98, 02/21/98, 02/24/98; Novedades, 02/24/98)

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