

Introduction

In December, 1994 Miami hosted the first Summit of the Americas. This historic meeting brought together the leaders of 34 nations in an endeavor to promote hemispheric development, democracy and respect for human rights; eradicate poverty and discrimination; and deepen economic integration and free trade. These goals were written into the final Plan of Action, which set forth the commitment of the heads of state who attended the meeting to create the Free Trade Area of the Americas (FTAA) by the year 2005. This commitment was ratified in April 1998 at the second Summit of the Americas in Santiago, Chile, where the region as a whole agreed to begin negotiations toward the establishment of the FTAA.

Under the same initiative that covered the promotion of the FTAA the Plan of Action of the Miami Summit dealt with capital markets development and liberalization. The Plan stated that "developing, liberalizing, and integrating financial markets domestically and internationally, increasing transparency, and establishing sound, comparable supervision and regulation of banking and securities market will help to reduce the cost of capital by enhancing investor and depositor confidence." In other words, the leaders of the hemisphere recognized financial sector integration as a key element in the promotion of private sector investment and, therefore, economic development and trade. At the same time, the hemispheric leadership realized that the financial sector should be a participant in financing trade, allowing for and maintaining a free flow of funds to be invested in infrastructure, capital goods, and providing other medium and long term financing. Furthermore, it became evident that free trade is dependant upon financial systems that facilitate the free flow of funds to pay for and finance commerce at a global level.

Recent financial crises have generated great turmoil around the world, especially in emerging markets. East Asian countries that for years were considered models of economic success, stability, and growth faced the repercussions of the lack of adequate capital resource allocation, over-investment, internal inflationary pressures and overvaluation of the currency. In fact, weak banking systems and inefficient bank supervision were among the most important contributing factors to the Asian crisis. The interplay of these Asian nations within the global economy created a chain effect that raised investment uncertainty and speculation around the world, especially in

the Americas. A growing sense exists in the Americas that, if urgent and appropriate precautionary measures are not adopted, the economies of the region could face a similar crisis.

This second edition of *Banking Systems in the Americas* is an effort to compare and analyze banking systems in the region. It presents an overview of the structure and current regulatory banking guidelines of the 34 countries of the western hemisphere that subscribed to the Plan of Action of the Miami Summit. An analysis of the State of Florida as an independent system is also included. Over the past two decades, the State of Florida, whose geographical location has converted it into a virtual gateway to the Americas, has strengthened its banking industry which, in turn, has contributed to the development of international banking. Moreover, the past decade has witnessed a tremendous growth in Florida's international trade and banking.

The preparation of this guide involved the compilation of data in key areas that define banking activity in the Americas. The data provided were gathered through a brief questionnaire submitted to each country's banking regulatory and supervisory authorities. In some cases the information was gathered through the banking associations that are members of the Federations of Latin American Banks (*Federación Latinoamericana de Bancos*, or FELABAN). Any minor discrepancies found were resolved through a careful consideration of the responses from regulatory and supervisory authorities.

The main areas covered in the guide are:

- Banking supervision and systems used to rate banks' safety, soundness and performance;
- The Basel Accord on consolidated supervision, comprehensive supervision on a consolidated basis, and the right to gather information from cross border banking establishments;
- National systems to define interest rates on both assets and liabilities;
- Insurance on deposits and limitation per account or per depositor;
- Definition of trade finance and treatment of export, import, pre-export, working capital, capital goods finance and their financing instruments, such as letters of credit, acceptances, drafts and others;
- Capital adequacy, with a special emphasis on minimum capital requirements and categorization;

- Asset quality, which contains methods and systems used to classify the loan portfolio, legal lending limits, and the categorization and evaluation of the investment portfolio; and
- Structure of liabilities, which includes types of deposits offered, reserve requirements and limits of concentration.

Banking supervision has a special place in the integration process. Healthy banking systems can contribute greatly to the dramatic opening of the economies of the hemisphere and to the prevention of Asia-like crises. Before entering into formal negotiations to open financial markets, practical steps in the financial sector and capital markets are necessary. These steps towards integration will benefit the banking systems of the region as a whole and, therefore, lead to positive externalities in Florida.

To ensure the process of integration in the Americas, a plan of action to include the following items is suggested:

- To incorporate financial and banking systems and capital markets into the agenda of the negotiating groups who report to the annual Trade Ministers Meetings. These negotiating groups are: Agriculture, Competition Policy, Dispute Settlement, Government Procurement, Intellectual Property Rights, Investment, Market Access, Services, and Subsidies, Antidumping, and Countervailing Duties.
- To stimulate the creation of working groups which deal directly and specifically with banking systems.
- To create an inventory of applicable banking legislation, including regulations as well as financial services and products in the hemisphere.
- To develop an inventory of the financial structure of each country that includes, among others, the regulatory and supervisory authorities, number of banks and/or financial institutions.
- To establish a permanent system for evaluating the financial and banking industry in each country by maintaining updated figures on total assets, capital, net worth, total deposits, efficiency and profitability ratios, and the like.
- To mobilize a network of interested parties by identifying universities that work with bankers' associations in each country, regional associations such as FELABAN, the Central American and Caribbean Banks Association and the Eastern Caribbean Central Bank, and associations of regulatory and supervisory authorities.

- To promote a better understanding of the importance of financial systems integration through symposia, seminars and publications oriented towards bankers, government officials, private sector groups and other interested parties.

Public and private sector groups along with academics share the responsibility for disseminating information as this process unfolds. To a great extent it also depends on the political will of the region's leadership to ensure the stability of the financial system.

The authors are grateful to the Summit of the Americas Center at Florida International University for allowing us the opportunity to contribute to the future integration of the Americas. It is our hope that the information provided herein will contribute in a small way to the development of the FTAA and the expansion of free trade in the Americas.

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