Abstract

This paper contributes to the research on how regulatory change affected the progressive integration of Spanish savings banks in the market. Special attention shall be paid to the role of the regulator vis-à-vis the conflict between non-profit banks and investor-owned banks. Consequently, this paper also analyses the problems of agency and governance stemming from the management of the savings banks in a progressively competitive environment, especially within the framework in which their counterparts were organisations that were traditionally subject to the discipline of their owners and the markets. This paper is centred on two historic moments which are considered to be pivotal in the evolution of savings banks. The first relevant period is that of the inter-war period, specifically from 1921–1933, which was characterised by significant regulatory changes. The other period of relevance is that from 1977-1989. During these years there was a highly significant regulatory change and established the position of these organisations as financial entities in a competitive framework.

Keywords: regulation, governance, non-profit banks, banks, savings banks, competitive edge, Spain.
1. Introduction

Among the wide variety of non-profit firms and consumer cooperatives that have developed within the European and American banking industry, Spanish savings banks stand out for their longevity and validity. Scholars such as Hansmann (1996: 263) assert that non-profit and cooperative banks have tended to lose market share vis-à-vis investor-owned banks in Europe and the United States throughout the twentieth century. Furthermore, he acknowledges that they continue to play a significant role, although this is due primarily to the inertia of capital and favourable regulations, rather than to their efficiency with respect to current investor-owned banks. This analysis, though valid in general terms, requires special clarification and a profound historical analysis in the case of Spanish savings banks. In fact, the theory has not yet resolved the paradox of the existence and current success of these entities in Spain (Crespí, García-Cestona and Salas, 2004), and from an empirical perspective, several authors such as Grifell-Tatjé and Llovell (1997), Lozano (1998) and Pastor (1995), amongst others, have not managed to answer in a definitive manner whether Spanish savings banks are nowadays more or less efficient than their competitors.

Thus we are faced with a debate which economic history can contribute relevant results. Spanish savings banks were organisations that during their first stage of development in the nineteenth century were not part of the banking industry strictly speaking for their philanthropic activities distanced them away from the interests and aims of the banking industry. However, the difference between their starting point and the present situation in which the savings banks find themselves well positioned within the Spanish financial system, which is, at the same time, reasonably competitive internationally, strengthens the historical perspective as a means of analysis.

The role of regulation and institutional change, as well as the specific problems of agency or governance that this type of organisations experienced throughout its progressive participation in the market, contribute substantial elements to the discussion that this paper endeavours to analyse. In the Spanish case, it is important to value the impact of legislative changes on the nature of the competition between savings banks and banks, especially during the interwar period, which is when savings banks begin to operate within the competitive framework of the investor-owned banks. A second period, which was key in their evolution as organisations, coincides with the reforms that began in the 1970s. This financial transition
occurred after a long period (1939-1975), in which the depredatory nature of Francoism had established a rigid financial hierarchy that hid distributive interests with high transaction costs (Caballero Mínguez, 2004). At the end of the seventies, a gradual financial reform began, which made savings banks that were subject to the same regulation offer the same products and yield to the same banking control mechanisms.

This paper aims to analyse the effects that the regulatory changes have had in determining the performance of savings banks. Since the time when A. Gilbert (1984) revealed the small impact that the effects of regulatory change had had in the analysis of the structure-conduct-performance in banking, there have been several more contributions in the literature on this subject. Recent developments insist once again on the competition amongst banks (i.e. Berger, Demsetz and Strahan, 1999), although there are very few works that include the thrift institutions in their analysis (Hannan and Liang, 1995). It is precisely in this line that the works by Emmons and Schmid (2000 a and b) have gained special importance, because, firstly, they stress the empirical nature of the problems that have been put forth, and secondly, because their proposal considers competition between for-profit sector (commercial banks) and not-for-profit sector (credit unions in the case of the U.S.), a fact that is quite useful for the analysis undertaken in this paper. For their part, Beck, Demirguc-Kunt and Maksimovic (2004 and 2005) insist once again on the importance of institutional development in banking performance. In short, the most recent literature emphasises the role played by the regulatory and institutional variables in the financial development, a point of view that we shall bear in mind in this paper1.

Another relevant aspect, derived from the progressive immersion of savings banks in a competitive environment, is that which is linked to its ownership structure and the problems of agency and governance. With the acknowledgement that these organisations lack formal ownership, it does not seem very relevant, analytically speaking, to consider the problems of agency derived from the separation between property and control of firms. This is the point of view of authors such as Shlifer and Vishny (1997), who think specifically about the shareholders and the investor-owned firms. However, it seems clear that the perspective of scholars such as Tirol (2001) and Rajan y Zingales (1998 and 2000) is much more productive for the case of the savings banks, for they are of the belief that the aim of practices of good governance should be the creation of value for the different interested parties, that is to say, clients, employees, suppliers, and society in general, as well as the shareholders. Thus, an

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approach that introduces the stakeholders will be for the effects of the analysis undertaken in this paper much more operable than the analyses that consider the shareholders to be the priority.²

In short, this paper contributes to the research on how regulatory change affected the progressive integration of these organisations in the market. Special attention shall be paid to the role of the regulator vis-à-vis the conflict between non-profit banks and investor-owned banks. Consequently, we shall also analyse the problems of agency and governance stemming from the management of the savings banks in a progressively competitive environment, especially within the framework in which their counterparts were organisations that were traditionally subject to the discipline of their owners and the markets.

In an attempt to present this paper in a chronological and analytical manner it will be centred on two historic moments which are considered to be pivotal in the evolution of savings banks. The first relevant period is that of the inter-war period, specifically from 1921–1933, which was characterised by regulatory changes which consolidated these institutions as organisations with financial and social objectives and furthermore brought about their first phase of expansion. The other period of relevance is that from 1975-1989. During these years there was a highly significant regulatory change which permanently consolidated the matter of solvency that had briefly appeared in the previous decades, and established the position of these organisations as financial entities in a competitive framework.

With the aim of providing background information for this study, section two of this paper provides a brief outline of some idiosyncratic aspects of Spanish savings banks, first with regard to their European counterparts. This is followed by an outline of the roots of the Spanish financial organisation. In section three, the first period of reference is analysed, the inter-war period in which the model of Spanish savings banks and the first interference of the savings banks in the competitive banking framework were consolidated. In section four the second period of the reference is analysed, the financial transition in the post-francoist period. This section outlines the greatest change in these entities, their success as full financial entities and the intrinsic contradictions in their status as non-profit firms without a defined ownership structure. In section five I shall attempt to establish some debates for discussion. In section six the paper ends with some concluding remarks.

2. Idiosyncratic Aspects of Spanish Savings Banks

2.1 The Non-profit Banks in European Countries

In the brief period between 1810-1825, non-profit savings banks made their first successful appearance in many European countries. By the middle of the nineteenth century, these organisations were numerous throughout Europe, as they also were in the United States. Then, the second half of the nineteenth century saw the creation in Europe and the US of banks organised as consumer cooperatives. These cooperatives were highly successful in Germany and to a lesser degree in the rest of Europe. Both institutions, non-profit and cooperative banks, played an important role in consumer banking. As Hansmann states (1996: 262), non-profit banks arose principally as a means of protecting customers from opportunism on the part of the bank, while the cooperative banks arose to protect the banks from opportunism on the part of their customers.

Non-profit banks basically emerged as institutions to amass savings; they were organised as mutual savings banks and trust companies, thus their depositors did not participate in the governance of the entity. These institutions, by definition, have no owners (no one has a share in both control and residual earnings). Legally speaking they were foundations that were constituted as private and charitable trusts. In Europe these thrift institutions were founded as charitable organisations to help the poor and the working classes. Their ideology was based on principles of philanthropy, a deeply rooted concept amongst the middle class, which strove to achieve the self-sufficiency of the individual and the overcoming of the mechanisms of mutual aid of traditional society through education in how to amass savings (Ross, 2002 and 2005). On the other hand, different types of cooperative banks were created with the aim of providing greater access to credit for their members and they acted as true cooperatives in which their members had formal control of the organisation. Among the typology of these banks of very diverse nature we shall highlight the following: the Mutual Savings and Loan Associations in the US and Cooperative Permanent Building Societies in the UK stand out, as both institutions were dedicated to financing the acquisition and construction of housing; the deposit cooperative called Credit Unions in the US and the numerous banking cooperatives created for agricultural credit in Europe and the US.³

Savings banks grew, both in terms of the number of entities and the volume of their activity, in all of Europe throughout the 19th century. While charity and philanthropy were key elements in the operation of nearly all of these institutions, the banking model and the extent to which public authorities intervened, varied from country to country. In England the George Rose Act of 1817 regulated the Trustee Savings Bank system. The board of honorary trustees and managers were responsible for the management of local savings banks and came into contact with the State by investing their funds with the National Debt Commissioners (Horne 1947, pp. 72, 78). The French model, on the other hand, which was set out in 1818, involved a start-up fund in order to cover the costs of setting up the entities. In the case of possible losses the banks were confident of being able to count on the help of charity and public donations. This system worked, thanks largely to the fact that local entrepreneurs took a part-time, active involvement in the entities, taking seats on the boards of directors and offering their business acumen and economic guarantees (Gueslin, 1989). The Act of 1837 entrusted the administration of the deposits to the Caisse de Dépôts et Consignations. Somewhat later, the debate on the 1895 Act rejected any concessions, such as the idea of investing part of the funds in the local economy. The assets of the ‘Caisse’ were invested in long-term government securities (Duet, 1983). In Italy, prior to political unification, the number of savings banks grew to almost one hundred. In general, during the 19th century these entities maintained a very independent status. After 1860 changes were introduced that affected the structure of the asset-side business of the Italian savings banks. Mortgage loans and securities (government and local authority loans) increased (Hertner 1996, pp. 197-198). In the case of Germany, the regulatory process began towards the end of the 1830s and at the beginning of the 1840s the governments of the German Länder began introducing measures to promote savings banks in general. In the case of Germany however, the nature of the savings banks was markedly diverse. One of the savings banks’ defining characteristics was the fact that, from the middle of the 19th century, the savings banks provided a larger contribution to financing than any other group of credit institutions. Finally, the Spanish savings bank model became established rather later in 1835, and did not really take off until the reforms of 1874-1880. The features of the model itself were much closer to those of their French counterparts as opposed to the British. The former model was preferred since it was difficult to emulate the British model due to the problems being experienced by the Spanish Public Treasury. In fact,

these limitations were to favour the evolution of a type of financial activity specific to Spain which was to guarantee the sustainability of Spanish savings banks.5

2.2 The Roots of Financial Organisation in Spain

In order to undertake a profound analysis of the nature of the competition amongst banks and savings banks we shall briefly point out the roots of financial organisation in Spain, especially as of 1874-1880, a period that inaugurated a stable banking and savings bank system.

From the point of view of the financial institutions the delay was quite considerable. At the beginning of the 1830s, the country’s banking capacity was very small, offset only by the presence of unincorporated private banks or merchant capitalists who performed a very important function in the 19th-century banking system (García López, 2000). The Joint-stock Companies Act was not introduced until 1848, and even then it was very restrictive in nature. It was not until the revolution of 1854 that progressive governments introduced two banking laws which relaxed the restrictions in place on the system: the Bank of Issue Act and the Credit Companies Act (industrial banks). This legislative agreement favoured the rapid growth of the banking system in the following years (58 entities in 1865). The first break occurred in the second half of the 1860s. The consequences of the 1866 crisis (the State's financial difficulties and the high banking risk represented by the railways) and the 1868 political revolution, which led to the first Spanish Republic (1873-74), all significantly reduced the number of banks (30 in 1870), (Tortella 1970 and Sudrià 1994). It was not until the Restoration of the monarchy in 1874 that new avenues were open to the financial sector.

The same thing was happening in the retail finance sector during the first decades of the century. Popular credit was in the hands of local moneylenders and pawnshops; it worked through the networks established in informal markets and the few local ‘Montes de Piedad’ (the literal translation is ‘Mounts of Piety’) that existed in Spain had very little influence on it6. These Montes de Piedad were early modern institutions of charity, its advances were made against some kind of collateral in pawn (usually, jewellery or clothes).

The first savings bank regulation was enacted in 1835, while the second came into effect in 1853. During this period only fifteen savings banks were founded, half of which had a very short existence. The first Spanish legislation gave power to independent non-profit-orientated

6 For more details on popular credit, see Montero (1983) and Martínez Soto (2001), pp.185-220.
institutions with their own means (there are allusions to the philanthropy of the rich who were supposed to provide these resources). Hence it displayed a preference for the investment of resources in the private sector and guarantees for the funds deposited. However from a financial point of view, the model was very weak, hence in 1839 the government saw the need for a model that preferentially linked each savings bank with a Monte de Piedad. Consequently the new institution that received popular savings was able to place its funds in the Monte de Piedad in order to make small loans to the more underprivileged classes (Antón Ramírez, 1876, p. iv). This link would be one of the most characteristic traits of the Spanish model of savings banks. In practice both institutions ended up becoming two administrative sections of the savings banks. The savings section managed the entity’s liabilities, while the Monte de piedad section was financed with those funds and managed the advances on collateral in pawn.

The 1853 reform attempted to regulate savings banks in a general manner. This reform was part of an interventionist strategy on the part of the conservative government with the aim of providing financial aid to the recently created Caja de Dépositos y Consignaciones (1852-1868), Gozalo (1981). This government-owned institution followed the French model and attempted to collect in a mandatory fashion the deposits in the savings banks in order to convert them into long-term public debt. The lack of confidence in the public credit provoked a strong popular rejection. The government had to suspend the employment of the new savings banks regulation (Titos 2001). Consequently over the next three decades Spanish savings banks continued to be governed by their own statutes and regulations, thus consolidating their statutory self-governance that constituted another idiosyncratic trait of these entities.

That is to say that banks and savings banks emerged quite late in Spain, with a lack of development and within a context of economic and financial backwardness. Their objectives and clienteles were radically different. Nineteenth-century savings banks were philanthropic institutions aimed at the most underprivileged social classes, while the banks aimed to collect the private savings of the upper and middle classes and to attend to the financial needs of firms in the short and long term. Therefore, during the nineteenth century both non-profit banks and investor-owned banks followed independent paths. A situation that is quite similar to what occurred in other European countries and in the US, at least until the mid-nineteenth century. In the US investor-owned banks were largely viewed with distrust during the first half of the nineteenth century and this was a circumstance that favoured individuals who
deposited their savings in non-profit banks (Clain-Steffanelli, 1975). In the UK the situation was not as clear, since the Trust Savings Banks was home to a not insignificant segment of their clientele who had accumulated large accounts throughout the years, which depending upon the interest rates were susceptible to being diverted to investor-owned banks, (Payne, 1967 and Maixé, 2006).

2.3 Savings Banks as Charitable organisations

The Restoration of the Monarchy in 1874 constituted a turning point in the history of Spanish financial institutions. The banking sector had begun to recover after the crisis of 1866 and the financial system was becoming more stable. Firstly, the government granted the monopoly in the issuing of bank notes to the Bank of Spain, which quickly started to expand their network of branches throughout the country, which in turn favoured the unification of the Spanish monetary market before 1885. Furthermore, the government established a banking infrastructure throughout the country which made up for the slow expansion of the regional banks during the following decades, which was delayed until the beginning of the twentieth century (Tedde, 1974 and Castañeda, 2001).

[Insert Table 1 around here]

On the other hand, the chaos that the retail and popular sectors of the financial system found themselves in required a political solution from the government. This came about in the form of legislation in favour of savings banks. The majority of Spanish savings banks that still exist today have their roots in this legislative push at the end of the century. The 1880 Act established a very small interventionist line in the organisation of Spanish savings banks. Table 1 shows the main characteristics of the regulation and the problems that were left unresolved. What stands out is the charitable nature of the banks and the wide margin of discretion in their activities and management. Spanish savings banks were to be basically governed according to their own statutes, which gave way to a large variety of cases (statutory self-governance). The new law established a significant difference with the interventionist French model, that in that period had created the National Savings Bank and the Post Savings Banks, and with the British case, whose trust savings banks were strongly regulated. This lack of precision in the Spanish regulation is shown in the second part of table 1, precisely in those aspects that were to allow the savings banks to develop, thanks to their investment policies, a more important banking status than some of their European counterparts. The new law gave a definitive push to the growth of Spanish savings banks. From the time it was published until
the end of the century the number of entities doubled and their deposits in the national savings increased by around five percentage points (table 2). In the 1890s some cooperative banks emerged along the lines of the German model. Most of these banks were established in the countryside under the auspices of the agricultural unions and the Catholic church. They served to finance the purchasing of the farmers’ inputs, though this did not gain a certain importance until after the first World War (Martínez Soto, 2001). Nevertheless, their impact was residual with respect to what had been developed by the savings banks.\(^7\)

The governance of the savings banks was controlled by the promoters who brought or guaranteed capital resources for the setting up of the savings banks. According to Titos (2001), half of the existing savings banks in 1900 had been founded by members of the liberal bourgeoisie, local landowners and members of the nobility; about 20 per cent had been founded by local corporations, while the rest were split between the agricultural unions, and to a lesser extent, between ecclesiastical organisations and some labour organisations. This confirms the idea that the majority of the governing bodies were made up of individuals, rather than representatives of public institutions. The thrust given by the 1880 Act specialised the government bodies of the savings banks. At the end of the century there was a transformation from a functional structure that did not distinguish between government bodies and management bodies to a more complex organisation. The old office in which the heads of the savings sections, Monte de Piedad, treasury and secretary coincided with the members of the Board of Directors, gave way to a board of directors and management committee that were independent of the employees. The link between government and management was the director or head of the office, who was usually the secretary of the board and the management committee.\(^8\)

3. A New Profile of Spanish Savings Banks (1921-33)

The Spanish banking panorama was transformed in the first two decades of the twentieth century. Between 1900 and 1914 the Spanish banking sector experienced a sharp increase in

\(^7\) It is for this reason, and given that they developed a very different activity from the savings banks, that we shall not delve into them in great length in this paper.

\(^8\) Sources come from the collection of reports, statutes and rules and regulations of savings banks in the Bank of Spain Library, the Bank of Spain Archive, Banca Privada, boxes 81, 104, 106, 107, 117, 542 and from the Caixa Galicia Archive, Secretary (see primary sources in references).
its levels of efficiency as a result of the increase in competitiveness. The concentration of banking received a boost from the accumulation of capital due to two exceptional circumstances: the colonial crisis (the repatriation of capital) and the Great War (the growth of business activity under the protection of Spanish neutrality). These circumstances favoured the expansion of the regional banking sector of Madrid and the Basque Country throughout Spain. In regulatory terms, after the War the first banking law was enacted (1921), while at the same time the first banking cartel, the High Banking Council (el Consejo Superior Bancario (CSB)) was created. Thus the Spanish banking sector became the central economic power in the twenties. It wielded such a strong influence that even classic studies make mention of the banking oligopoly when referring to the process of formation of the great Spanish banking sector. In a similar fashion, the growth and socio-economic impact of the savings banks was consolidated during the inter-war period.

3.1 Regulatory Constraints: the Savings Banks Acts of 1926 and 1933

Almost half a century after the law of 1880, Spanish legislation relating to savings banks introduced a new approach to savings. This new challenge emerged during the dictatorship of General Primo de Rivera (1923-30), a period in which the economic policy was marked by an authoritarian corporatism. The next step occurred at the beginning of the thirties when the Spanish Republic was established. Table 3 shows the regulatory milestones that were achieved during the inter-war period and the institutional aspects that define the sectorial conflict between the different interest groups.

[Insert Table 3 around here]

The law of 1926 sought to reform and draw the savings banks closer to the private sector. However, it provoked a strong reaction and lively debate within the savings banks sector. The financial press considered the law to be interventionist in nature and perceived the influence of French regulatory policies ‘in defence of small French savings’. The law sought to sanction both the profit and the non-profit sectors, which meant that the savings banks would lose their tax benefits. Another significant change, that was to continue to stay in effect for a

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11 El Economista and other economic publications followed the debate on savings that was taking place on the other side of the Pyrenees during these years (Fernández Clemente 2005).
long period of time, was the establishment of a mandatory investment coefficient (a fixed percentage of deposits invested were to be in government debt). Finally, from the point of view of supervision, a greater emphasis was placed on the social implications of the savings banks. The new law transferred the supervisory tasks from the Home Office to the Ministry of Employment, Commerce and Industry, which would later become the Ministry of Employment and Welfare (table 3).

The law was without a doubt contradictory and sought to please those who accused the savings banks of unfair competition, but at the same time it also sought to gain the support of the savings banks sector. The State-regulator was the third implied party, due to its interest in finding inexpensive funding for its social policies. It was within this framework that one of the most conflictive periods developed between non-profit and investor-owned banks, an aspect that shall be dealt with in the next section. In reality the law was not very effective and in 1929 a new law was enacted with the aim of achieving a greater consensus. The new regulation re-established the different nature of the savings banks and strengthened their position as non-profit institutions with social objectives. The social bases of the agreement were weak for it retained elements that the savings banks had rejected. Furthermore, in the new decade a new regime took power with the advent of the Second Republic in April 1931. In this new institutional setting the interest groups rearmed their positions.

The lobby groups were perfectly defined: the banking cartel (CSB) and the recently created Confederación Española de Cajas de Ahorros (CECA) (Spanish Confederation of Savings Banks), that had been created in 1928 with the purpose of becoming the savings banks’ lobby group. The CECA continued to put pressure to force a legislative revision. It managed to take advantage of the initiatives of the socialist ministries of the recently proclaimed Republic, which sought to strengthen the role of savings banks as receptors of private savings (Velarde, 1983: 65). The confederate savings banks managed to enact the Decree of 1 July 1931, which suspended the part of the existing law that had limited their financial and investment operations. Finally it was the socialist government which promoted a new savings bank law in March 1933, which laid down the regulatory guideline for several decades.

The new law created a legal framework that clearly favoured the savings banks (table 3). The law strengthened their status as non-profit banks with social aims and maintained their status as independent institutions set up as private foundations, although in some cases their promoters could be town halls or other local corporations. The law also established a special
registry to acquire charter as savings banks. But perhaps the most novel aspect was that for the first time Social Work (Obra Social) was defined, which legally obligated them to provide an endowment for such work. Social Work was understood as a way of returning the profits of a non-profit organisation to society in the form of a social dividend. In this sense, the Spanish savings banks adopted early on a practice that is nowadays understood as ‘social corporative responsibility’. On the other hand, some other aspects dealt with in the prior laws stood out: the mandatory investment could never exceed 30% of the saving deposits and the loans had to meet very strict criteria (established repayment periods, maximum percentages on guarantees presented, etc.). A new feature was the introduction of financial solvency criteria (the reserve funds had to represent at least 10% of the savings balance); and, finally, the obligatory membership of the regional federation and the CECA was established.

In summary, this regulation defined what would become for many years the Spanish savings banks. It put an end to the margin of freedom that the previous law had given the sector and established some guidelines whose use and abuse grew during the dictatorship of General Franco (1936-1975). The interventionist criterion was established, instead of defending the principle of competition. Finally, though the law did not indicate the criteria for territorial expansion of these entities, their sphere remained limited to areas of traditional influence, thus maintaining a marked local and provincial character. As could be expected, the law of 1933 did not eliminate the old disputes between banks and savings banks, which kept occurring within the political framework of the Republic until the Civil War of 1936.

3.2 The Cartelisation of the System and the Conflicts between Banks and Savings Banks

The process of banking cartelisation took place in conjunction with the regulatory change and the conflicts generated by the governmental policies. The State as an interested party did not at any time resign itself to losing influence over the savings banks, since it was aware that they could provide funding and contribute to their social charter investments. It is important to point out that the use of the term ‘cartelisation’ refers preferentially to the unionised work of the entities at specific times in defence of their corporative interests. Recent empirical results question the existence of a cartel-like market structure or one that was subject to stable collusive agreements on the part of investor-owned banks (Pueyo, 2003).

The situation created after the first banking law of 1921 and the simultaneous creation of the banking cartel (CSB), generated a series of defence mechanisms put in place by the
savings banks. First, there were the processes of regional association (the Basque-Navarre federation in 1924, which was followed by the Galician, Castilian and many others, up to eight regional federations) and finally the creation of the CECA in 1928. This initiative was put forth in order to coordinate the work of the savings banks vis-à-vis the legislative framework that favoured concentration and banking expansion and that marginalised the work of the savings banks. The Spanish savings banks had attended the First International Congress of Savings in Milan in 1924, where the success of the regional and national federations in Europe and the US was revealed. Becoming aware of these initiatives encouraged the directors of those entities that were the most dynamic, especially those that belonged to areas where regional savings bank federations had evolved, to promote an associative project.\textsuperscript{12} That is to say that the first steps taken by the CECA were of a corporative nature, establishing itself as a representative association of the savings banks with the aim of coordinating the work and interests of the savings banks. Its role as a pressure group was fundamental from the very beginning of its inception.

The pressure placed on the savings banks had already begun to be felt on account of the first regulatory changes in the sector. The liberal business press such as El Economista, closely linked to the banking groups, had considered the 1926 legislation to be “exceedingly protective and, as a result, dangerous”, arguing that extreme protectionism and regulatory interventionism would lead to “economic starvation or the socialisation of all the industries and of all the economic activities in need of capital”. The most common criticisms pointed to the privileged status of the savings banks vis-à-vis the investor-owned banks as the law allowed them to begin their activities without neither capital nor previous reserves. They insisted on the problem of financial solvency and argued that the law should prohibit “acquiring for its portfolios mortgage debentures, or any other types of credit titles against goods, incomes or services that belonged to the Corporation itself that sheltered the savings banks” (municipal, provincial savings banks, etc.).\textsuperscript{13}

The controversy became more intense as a result of the 1933 law. The new regulation was accompanied by a decree of the same date created by the Instituto de Crédito de las Cajas de Ahorro (ICCA) (The Savings Banks Credit Institute), the main clearing bank for the savings banks. The impact on the banking sector and on the banking environment was very negative.


\textsuperscript{13} El Economista, 1930, pp. 644-46, quoted by Fernández Clemente (2005).
"El Economista" attacked the creation of the ICCA harshly, clearly reflecting in this way the banking groups’ philosophy:

Under the pretext of creating a body to help and fund the Savings Banks, what is being done is to simply create a credit establishment that will do the functions of the private banks and that even blatantly invade the sphere of activities reserved exclusively by law for the banks, privileged with an illegal and absolute tax exemption for all types of taxes. [...] Both the private bank associations as well as the official banking sector are dealing with this issue in order to make the government see the harm that the illegal measure will cause them.\[14\]

Those who defended the savings banks considered that the work of the ICCA did not interfere in the private sphere, since it did not operate with private individuals, but rather with the State and with public corporations. Furthermore, they defended the large amount of social work that they could develop with customer cooperatives, friendly societies, etc.\[15\] What was beginning to take shape from an institutional point of view was a central savings banks or wholesaler of retail finance. This type of institutions was being developed at the same time in other European countries such as Finland, Italy and Norway (Revel 1991). In the Spanish case the ICCA developed its work until the beginning of the financial transition of the seventies, when this role was assumed by the CECA itself.

The new orientation of national policy with the coming to power of the right wing at the end of 1933 resurrected the old disputes between banks and savings banks. Within the more favourable climate, the representatives of the CSB demanded, despite the opposition of the CECA, a return to the legislative framework that was in place in 1929 and which had been annulled by the later regulations (Nadal and Sudrià, 1981). The Decree of 3 May 1935 attempted to bring an end to this new stage in the conflict. The new law established that the savings banks would be under the supervision of the Ministry of Finance in the banking aspects of its operations. The social and charitable work would be under the supervision of the Ministry of Employment (a dual position which was to be maintained until the Decree of 26 July 1957).

Furthermore, in accordance with the 1935 Decree, the savings banks operations in the financial arena were to become the responsibility of the governmental delegation of the CSB. The interpretation of these regulations caused old resentment between savings banks and banks to resurface. While the CSB, basing its claim on the law, claimed jurisdiction over the savings banks, for their part the savings banks made no sign of surrendering power to the

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\[15\] Ibid, 24 March 1933.
Council. After the failure of all the ministry’s attempts to bring about peace, the agreement was suspended and a new attempt at negotiations was undertaken. The sought-after harmony had not been reached when the civil war broke out.

In short, the institutional system that was constituted in this way allowed the CECA to maintain its associative and representative position, while the ICCA became the savings banks’ bank and the moneylender agency for the government and other official bodies (Comín and Torres, 2003 and 2005). As Batiz-Lazo (2004) asserts the new organisation of the savings banks characterises an episode of integration in retail finance. The process begun in 1928 was the seed of a long history of collaborative strategies and outsourcing, that would really allow the savings banks in the long term to compete with the banks in the retail market.

The results of this period were contradictory. On the one hand, the process of change that these institutions underwent from a regulatory perspective did not contribute to the creation of a more open and competitive banking market. Nevertheless, on the other hand, there was a greater level of involvement of the savings banks in this market, with the possibility of offering new financial products and services thanks to the advantages that a protectionist regulation offered the non-profit banks vis-à-vis the investor-owned banks. Indeed, the savings banks participated in a very active manner in the deposit market, reaching an average share of around 20% of the deposits of the financial system before the civil war (table 2). Furthermore, they incorporated new products (demand and deposit accounts, mortgages, etc.), as the next section shall briefly delve into. And, finally, if we acknowledge that their traditional clientele belonged to the popular classes, we shall conclude that in this period the savings banks contributed to reducing the level of financial exclusion.

3.3 Corporate Governance and Agency Costs in Spanish Savings Banks

During the decade leading up to the civil war the panorama was one in which qualitative changes took place in the business of Spanish savings banks. The organisational reform that should have affected the modernisation of their management began to take shape in those entities with the largest volume of business and strongest business tradition. Although this was the general tendency, until after the civil war there continued to be a considerable degree of segmentation within the sector, and the smallest savings banks continued to function with

16 The liability products became more dynamic and they more closely resembled commercial banking operations. The pawn loans from the Mont de Piedad were reduced to the micro-credit area, increasing the value and number of free loans. However, it was in the field of mortgages where the greatest changes took place. Another investment tendency of the savings banks was the growing weight of their investment portfolios, Maixé (dir.) (2003), pp.160-61.
very traditional products. In fact, 74% of the savings banks had a below-average volume of deposits (see table 4).

The boards of governance continued to integrate a conglomerate of representatives primarily linked to civil society. During the inter-war period the main core of the savings banks had become stable, as there was a relatively low number of new incorporations and closings. The savings banks’ sphere of governance continued to be unregulated, thus statutory self-governance continued to be the norm, resulting in a wide variety of cases. Nevertheless, upon analysing the savings banks’ statutes one can observe that in general the government bodies made up some of the following groups:17

- Representation of individuals or founding institutions
- Representatives of the depositors (sometimes elected by lot and others based on their savings balances)
- Representation of outstanding members of local society (industrialists, merchants, artisans, important members of school boards or other charitable boards, military men, etc.)
- Representatives of the local, provincial or government authority
- Clergymen from the Catholic Church who were involved in charitable activities
- The representation of employees was limited to the figure of the director of the savings bank who usually acted as the secretary of the board

The status of private foundations without capital representation did not impede the savings banks from having a social purpose. It is for this reason that Spanish savings banks embody an early ‘stakeholder’ model, seeking to bring value and return to the whole community of stakeholders which surround them, and not only to their financial partners. Basically, these stakeholders included promoters, customers and more generally the local community in which savings banks operated.

A governance structure of this type suffered numerous inefficiencies at the management level, that had a negative repercussion on high agency costs. In accordance with Jensen and Meckling’s (1976) analysis, these could be reduced to the costs of monitoring the managers. The most direct tool was the control that the Board of Directors wielded over the general manager, who according to the statutes was usually the secretary of the board of governance.18 The board’s control over the executive board was also strengthened by an

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17 Collection of Statutes of the savings banks indicated in primary sources.
18 See Williamson (1985).
additional mechanism, constituted by the figure of the ‘appointed member for the week’. The statutes established that a member of the Board of Directors should supervise rotationally and in weekly periods ‘in situ’ the management of the savings banks (see figure 1 in Appendix). The system did not become more efficient thanks to the greater degree of professionalisation of the savings banks’ executives, a direct consequence of the qualitative change that was taking place at the level of management and supply of services. The specific statutory reforms of the savings banks that were enacted during these years strengthened the figure of the director legally and functionally. However, the definitive aspect was their inclusion in the ranks of the personnel earning a registered contractual salary. This aspect favoured the access of men with financial experience to the management of the savings banks, as they assumed a contractual responsibility with the boards of governance.


4.1 From the Hierarchy to the Market

The political regime that emerged after the civil war was characterised in the forties and fifties by a policy of total interventionism in the financial system. The so-called banking ‘status quo’ meant the establishment of entry barriers with regards to the creation and expansion of financial entities. Interest rates and the regulation of the investments that affected the operations of credit entities met the administrative criteria while leaving the market on the sidelines. In short, the State decided who the financial agents were, what the price of money was and where resources should be directed. The first turning point occurred with the Stabilisation Plan of 1959. However, the liberalisation and opening of markets did not affect the financial system. On the contrary, a greater level of state intervention was produced up to the point that in the sixties industrial and commercial protectionism was replaced by a new financial protectionism (table 3).¹⁹

The model of the depredatory State of Francoism, in the sense that North (1981) gave it, established an inefficient financial hierarchy with a distributive intention that imposed high transactions costs on the system. The savings banks were subject to constant control. As of 1947 the State controlled 15% of the savings banks’ Social Work, it forced them to take on public debt that was automatically rediscounted at the Bank of Spain and, finally, the State

interfered in their investments. However, there emerged some paradoxical situations. In the early sixties the entities had improved their organisational efficiency considerably and started to increase their participation in the financial system (recovering the market share that had been lost after the war, see table 2), but more than 80 per cent of their investments were administratively controlled\textsuperscript{20}. In the sixties, Spanish society inaugurated a period of mass consumption. The new thrust was provided by industrial development, the tourist boom and the transfers of money arriving from Spanish emigrants in industrialised European countries. These factors were decisive when it came to creating savings and consumption habits in the population. Spanish savings banks took the best possible advantage of the public access to a new culture. More than that, they actively contributed to its development.

However, despite the economic development, Spanish financial modernisation did not occur until the transition from a depredatory State to a contractual State took hold. The institutional change at the end of the seventies allowed for the creation of new aims, incentives and instruments.\textsuperscript{21} In conclusion, the sixties and the beginning of the seventies were characterised by an absence of a monetary control policy and by the lack of competition in the financial system.

### 4.2 Savings Banks Contesting Markets Traditionally Dominated by Investor-Owned Banks

In the last years of the Francoist regime there were some attempts to effect reforms in the economic field, basically in the areas of fiscal and financial policy. However, the absence of a coherent institutional framework dissolved the effects of such measures. There were some timid liberalising measures in this line with regards to interest rates, the opening of bank offices and a greater level of supervision of the Bank of Spain (table 3).

As Caballero (2004) has indicated, the change of political institutions with the establishment of democracy in Spain was key for enacting financial reform. In general the political structure that was set up as of 1977 meant in terms of institutional economy the development of a solid framework, that protected private property and offered contractual guarantees. It was in this environment that the gradual financial reform took place in practically fifteen years.


\textsuperscript{21} Ontiveros y Valero (2003) and Caballero (2004).
In the summer of 1977, the ‘Fuentes Quintana’ reform, which was basically fiscal and financial in nature, meant that savings banks and banks were once and for all standardised\textsuperscript{22}. As Lagares (2002) points out, the strategy of financial reform was undertaken in a context of severe economic crisis and of deep political uncertainty. The centre-right government decided on one single line of attack in order to introduce competition into the financial markets: to reform the savings banks system so that they could act in a deregulated market. The system needed to increase in size; the option taken was the alternative to authorising new banks or opening up the market to foreign banks, possibilities which the government did not consider sensible.

The changes were incorporated into the system gradually, as the range of banking operations that savings banks were authorised to perform expanded, particularly those that encouraged their involvement in the business sector. Another important factor in the economic reform was the setting up of the regulations that were supposedly necessary so that, in fact, an asset monetary policy could be enforced. A definitive step in this direction was the raising of the savings entities’ cash coefficient to the same level as that of the banks. In this way, the monetary authorities had the option of acting on cash assets or on the coefficient in order to control the evolution of broad money (M3).

The devaluations of 1977 and the progressive growth of the public budget deficit slowed down the liberalisation process as far as the reduction of the obligatory investment coefficients was concerned. Furthermore, the end of the decade was characterised by the banking crisis (also affected by the industrial crisis), which led to the most famous banking restructuring process in contemporary Spanish history. However, the savings banks managed to remain almost completely uninvolved. Nevertheless, in 1979 the opening of savings banks offices was deregulated within the autonomous regions of origin of the savings bank. It was not, however, until 1988 that expansion was allowed throughout Spain (table 3).\textsuperscript{23}

As of 1981 the Social-democratic governments re-launched legal initiatives in order to consolidate the modernisation of the monetary policy.\textsuperscript{24} Among other things, the government encouraged deregulation in matters of investment obligations. These measures brought about a far-reaching reform of the investment coefficients, uniting them for all entities and reducing their effect on the financing circuits.\textsuperscript{25} These arrangements were historic as they allowed...

\textsuperscript{22} Royal Decree 2290/1977 of 20 August.
\textsuperscript{23} Ministerial Order of 20 February 1979 and Royal Decree of 29 December 1988.
\textsuperscript{25} Decree of 27 February 1987 and Decree of 13 January 1989 which set out its disappearance in 1992.
Spanish savings banks to recover the authority to freely invest their resources. All these measures attempted to bring the financial system into line with the European Community, which Spain joined in 1986. Finally, the reform of 1988 mentioned above made the requirements for the creation of a bank the same for the Spanish case as for foreign banks and it regulated the creation of bank branches and of savings banks throughout Spanish territory.

The deregulation process also affected the cooperative banks. The policy of the Executive benefited the largest rural savings banks, and consolidated a provincial structure. Finally, the liberalisation of the financial system was accompanied by a wave of mergers in the savings back sector. The Decree 1838/1975 had great implications for the second wave of savings bank mergers, which was a first step prior to the massive operations that were to take place in the nineties. In total, between 1976 and 1985 sixteen entities were involved in this process.

Liberalisation generated intense conflicts of interest, especially among the large banks, but also among the bulk of the small and medium-sized savings banks, which was reflected in their corporative bodies. The CECA was strongly shaken between 1986 and 1991 and only managed to survive as a result of a very far-reaching reorganisation. As Comín and Torres (2003) point out, it was necessary to ‘re-found’ the body. The process strengthened the institution, and solved the imbalance between the services that the Confederation offered and the new demands of Spanish Savings Banks. After the reform, the CECA were organised in three areas: associative, operational, and financial. The first assumed the representative role as a savings bank association, while the other two were governed by entrepreneurial criteria with the aim of offering specialised services to the savings banks. The CECA has continued to act as a sector intermediary in the financial markets or as a wholesaler of retail finance and as an investment bank for interested savings banks.

[Insert Table 5 around here]

The Spanish banking sector went from the Francoist oligopoly to a progressively liberalised situation. At the same time, the savings banks gradually came under the same regulatory framework, thus increasing the number of participating agents in the market and competition. In fact, the liberalisation, while simultaneously increasing competition and eroding the banks’ market power, established incentives to adopt greater credit risk levels

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26 Between 1989 and 2000 the number of savings banks decreased drastically as a consequence of the third wave of mergers. From 77 the number went down to just 47, a fall of just over 40 per cent; the sector became more competitive thanks to the concentration of companies.

27 CECA Statistics Yearbook.
(Salas y Taurina, 2003). In short, the system’s efficiency improved, though collusive and market power practices persisted, which resulted in very high costs in certain cases, such as in the loans market (Jaumandrey y Lorences, 2002).\textsuperscript{28} In any case, the savings banks gradually gained market share over the banks, both in the deposit market and in the credit market during the financial transition (table 2 and table 5).

There are a few factors that can help us to understand how the Spanish savings banks managed to position themselves in the contestable markets that were traditionally dominated by the commercial banks. An influential factor, which is indicated in studies from several doctrinal postures, was the taking-on of fundamental aspects of the reform on the part of the chief executive officers (CEOs) of savings banks and banks. Some executives of the savings banks were closely linked to the authors of the reformist economic policy of the period and to the progressive strategy of the financial reform.\textsuperscript{29} There was also a similar positioning by key members of the CSB and the Asociación Española de la Banca (AEB) (Spanish Banking Association).\textsuperscript{30} This convergence with respect to the progressive strategy and the need to face the challenge of the competition, in short, to adapt to the new institutional framework, facilitated the task of the organisational restructuring of savings banks in order to attain a successful diversification in the banking markets.

However, there is another much more tangible factor that explains the efficient inclusion of the savings banks in competitive markets. As Batiz-Lazo (2004) has indicated, the CECA was instrumental in savings banks contesting bank markets. The CECA had attained considerable credibility as a savings bank association at the end of the Francoist period. The reforms that the Confederation had undergone at the start of the seventies prepared the institution for future tasks. The CECA, as a collectively owned central operator became the main recipient of savings banks’ outsourcing strategies and clearing activities. The disappearance of regulatory barriers allowed the CECA, in periods of strong growth of the Spanish economy, to offer their associates access to IT infrastructures or clearing activities, with economies of scale that allowed for the development of new competitive capacities. We could conclude with a simple empiric estimation that shows how well the Spanish savings banks adapted to a fully competitive environment. By comparing the position of the savings

\textsuperscript{28} Although there were problems related to the fall in productivity in the sector, especially due to the changes in the financial situation, see Grifell-Tatjé and Lovell (1996) and also Caminal, Gual and Vives (1990).


\textsuperscript{30} The law 3/1994, 14 April, adapted the Spanish legislation in the matter of credit entitities to the Second Directive of the EU’s Banking Coordination, agreeing to dissolve the CSB and to designate the AEB as the representative of the banks that were comprised by the CSB.
banks in the world ranking, we see that they are higher ranked than during the mid-eighties. At that time among the 500 banks in the world ranking, there were eight Spanish banks, followed by four savings banks (the first bank was ranked 89th and the first savings bank was 205th). In 2002 there were seven banks and fourteen savings banks (the first bank was ranked 24th, while the first savings banks was 72nd).  

4.3 Savings Banks: An Advanced Policy for Stakeholders

The institutional dynamics of the Spanish financial transition changed the rules of the game of the financial system. The system incorporated a diversity of governance structures that broke with the traditional structure of the banking corporations in the neighbouring countries. These differences were clear in the case of the savings banks and banks. When the reform began the savings banks’ governance structure had changed relatively little since the Decree of 1933. The first law of entity of the financial transition, decree 2290 of 27 August 1977, clearly affected the governance of the savings banks.

The reform of 1977 also regulated the functions and the governing bodies of the savings banks. They were granted a high degree of freedom in their banking operations and also representation on the regulating bodies. The old Boards of Directors gave way to a General Assembly (the supreme governing body, which included important representation from investors, employees and institutions), the Board of Directors (general financial administration of the savings bank) and the Commission of Control (which supervised the management of the Board of Directors). A Commission for Social Work and a Balance Overseeing Commission were also set up. This reform represented the final break with the ‘statutory self-governance’ of Spanish savings banks and changed the traditional composition of the governing boards. Later legislation regarding savings banks was to restrict the running of these entities through the participation of local and regional administrations in their governing bodies. Paradoxically, this policy was simultaneous with the processes of financial liberalisation which successive governments from one or another of the political leanings put into practice up until the start of the new century.

The policy of the Socialist governments that were in power from 1981 was characterised by the aforementioned paradox. The Regulation of the Basic Rules for Governing Bodies of Savings Banks Act (LORCA), of 2 August 1985, put forward the possibility of bringing into

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31 *The Banker.*
line the democratisation of the governing bodies and efficient management. However, in the new governing bodies the representation of the depositors and socio-cultural entities was reduced, and that of the town councils of the areas where the savings banks were active increased. The law was subjected to several appeal processes on the grounds of being unconstitutional, and the Constitutional Tribunal ruled that part of the contents could be regulated by the regional autonomous governments. These circumstances meant that after 1991 several regional laws were enacted which regulated the running of the entities with slight differences.

Finally, the Reform of the Financial System Act of 22 November 2002 readdressed certain problems that had been brought about due to the excessive interventionism of the public administrations in the governing bodies. In fact, to avoid the European Union considering certain savings banks to be public bodies, the new financial law provided for there to be limited public participation in these bodies, up to 50 per cent (in some cases it was over 70 per cent). At the beginning of the new century savings banks keep a direct presence of stakeholders in the governing bodies. The average percentage of stakeholders representation in the whole savings bank sector in Spain is:\(^\text{32}\)

- Customers 36%
- Municipalities and local administrations 25%
- Founders 12%
- Employees 10%
- Regional governments 9%
- General interest organisations 8%

Therefore, the reforms of the savings banks’ bodies of governance have ended up strengthening the role of the stakeholders. It is important at this point of our analysis to insist upon the fact that we are faced with organisations without explicit owners and without any market control. Thus, they are subject to a greater level of ambiguity and opportunism amongst the stakeholders, an aspect that recent history has demonstrated. However, we have also seen that they have successfully competed with other entities that have their own clear ownership structure and whose stakeholders are subject to the markets’ mechanisms. As was indicated in the introduction there is no agreement in the literature on the greater efficiency of the savings banks and banks, due to, above all, the differential aspects that affect the distribution of their profits. Consequently, there is a lack of convincing arguments to justify their success. Nonetheless, if some of these differential aspects are analysed, we shall see that the savings banks assign a considerable portion of their profits to Social Work activities and,

\(^{32}\) ESBG (2006).
furthermore, their presence contributes to increasing competition in the bank markets. From this double point of view, as Crespi and Garcia Cestona (2004) have asserted, it is clear that the savings banks play an important role in society.

From the managerial point of view, the processes of reform in Spanish savings banks were slower. However, as a result of the technological change and the inclusion of IT processes, the organisational structure of the companies was gradually modified. My opinion is that the most reliable indicator of this process was the gradual differentiation between Main Offices and Central Services. The Main Office was to become more and more a utility office, segregating the Central Services which made capital gains from the business that constituted and was controlled by the different departments. In this sense, the new operating methods incorporated new departments that dealt with aspects such as direct debits and credits (transfers into and out of clients’ accounts), foreign affairs (foreign currencies, transfers to and from other countries and information exchange with foreign clients) and the services that deal with inter-office operations, once the teleprocessing networks were up and running (see figure 2 in Appendix).

Undoubtedly the great leap was taken in the early eighties. It is what Quintas (1994) called the new technological revolution, based on the intensive use of information technologies which was the key factor and determined structural change. Technological change and applications of information technology are said to be responsible for enhancing competitiveness of retail finance. These changes deeply affected the internal organisation of the savings banks. The larger savings banks experienced gradual organisational changes that transformed a bipolar structure (central services-territorial services) into a multidivisional structure (see figure 3 in Appendix), which is another example of the operable and organisational maturity of these entities at the end of the century.

5. Discussion

5.1 Regulatory changes

The problem of regulatory changes and their role in banking performance has been the central focus of this paper. The heart of the matter is the application of compatible regulatory policies within the institutional milieu. This situation did not emerge during the inter-war period, since policy-makers were faced with difficulties to act coherently within the legal environment. The causes were the problems of asymmetric information and the inexistence
of an institutional framework that was sufficiently mature to permit efficient and successful solutions (an excess of informal rules, the inexistence of financial control tools, etc.). In comparison, the financial transition of the eighties followed another path. During this period the application of a progressive regulatory practice was in keeping with the institutional change that was taking place, thus guaranteeing the success of the policies.

5.2 Efficiency

The savings banks pose several analytical problems when compared with the investor-owned banks, precisely because they are very different from their counterparts. Some of those differences stem from the fact that they do not owe their shareholders anything and, thus, the returns on investment are not the only key to measuring their efficiency. Another significant difference lies in the matter of the Social Work, whose activity is measurable in a certain sense, but which also has several intangibles that escape any type of assessment. Finally, we have looked at the suitability of these differences, that is, whether the diversity that the savings banks advocate is good.

However, some of these differential factors find themselves at the heart of the current debate on the savings banks. A good example would be the considerations being discussed about the social responsibility of financial institutions and firms in general. Savings banks could claim in their favour that they have been responsible since the beginning and with legal foundation since 1929, thanks precisely to their social work. Hence, it is reasonable to think that part of the problem posed by the aforementioned differences stem from the analytical difficulties in measuring them. This leads us to the theoretical need to improve the analysis of efficiency when there are multiple objectives.

5.3 Asymmetry

Finally there is another aspect that generates confusion in the debate on the governance of the savings banks, which has to do with the participation of public authorities in the stakeholders’ area. For some this participation questions the competitive framework and, thus, they consider that the presence of public institutions is not justified in the governance structures of the savings banks. This would be a first factor of asymmetry with respect to the investor-owned banks. A second factor of asymmetry is the impossibility of the latter to intervene in the purchase of savings banks, while the opposite operation is possible. A third
factor, recently introduced with the Financial Law, obligates savings banks, but not banks, to put into practice certain measures of good governance.

The origin of these asymmetries lies in the fact that there are significant organisational differences between non-profit and investor-owned banks, yet the regulation treats them unitarily. This situation would justify the approach of whether or not the privatisation of the savings banks would be more efficient and, thus, put an end to this difference. We could claim that in 1926 this possibility had already been put forth and the reaction of the entities was to reject giving up their special idiosyncratic status as non-profit banks. Nowadays, the scope of the controversy is much larger since it includes aspects such as the following: Who controls and makes decisions in the savings banks? Is economic efficiency sufficient in order to assess the overall efficiency of these entities? And, finally, is it necessary to maintain or eliminate the organisational differences between savings banks and banks?

6. Conclusion

Spanish savings banks constitute a case study of singular importance. Two apparently contradictory aspects converge in this study: they are non-profit banks that, however, have successfully competed with the investor-owned banks. Faced with this paradox, the historical analysis can make significant contributions. The history that has been presented in this paper is one in which institutions that were initially not subject to market discipline, have contributed to the development of competition in the long run.

The savings banks began to be important in terms of market share during the inter-war period. Previously they had developed under a very limited regulatory control, which allowed them to capture clients in the area of retail finance. It was precisely in the 1920s and 1930s when the regulatory pressure on these institutions increased. As of that moment, within a framework that we have described as cartel-like, the savings banks developed a series of tools to defend their interests (regional and national savings banks associations). This strategy identified them as a pressure group vis-à-vis the banks and it endowed them with a greater amount of influence among the retail financial intermediaries. In this sense, the savings banks performance during the inter-war period was very positive, as they increased the number of services offered in retail finance, they contributed to education in savings and, above all, they decreased financial exclusion. The price for this was the lack of development of competition and the interventionism of the State, which was interested in a financing system subsidised by
the depositors. These last aspects were to have a warping effect on the system and they became endemic during the Francoist period.

The financial transition that, strictly speaking, began in 1977, cannot be understood without the participation of the savings banks. As full financial entities, the savings banks contributed to increasing the size of the system and, thus, they helped to increase competition. However, their organisational diversity also contributed to this same objective, since they were subject to the same regulatory and market conditions as the rest of their competitors.

The two historical periods that have been studied in this paper entailed an advance in retail financial markets. In both cases the savings banks contributed to the strategy of diversification of the financial sector and improved their involvement in this sector. The big difference lied within the competitive framework. During the inter-war period, collusive and market power practices were in the hands of the banking sector; and furthermore, the development of competition was not an objective of the regulator.

However, after the long interval of the Francoist period, the regulator set as its prime objective the creation of a legislative framework that would protect private property and contractual guarantees, and also act as a guarantor of competition. In these circumstances, the regulatory change played a real determining factor in the performance of savings banks.

The longevity and ability to adapt to the changes in the Spanish savings bank model deserve special attention. In terms of the evolution of the economy we can assert that the savings banks managed to adapt themselves to a non-competitive environment as well as to a competitive one. In both cases they contributed to the financial development. This flexibility is to be found in their ability to grasp what the public’s needs were and to inspire confidence amongst their clients. Obviously, management and governance have been the key aspects of this symbiosis. Both in the stages of regulatory flexibility and in which competition was imposed, the savings banks’ mechanisms of governance positively corresponded to a structure of multiple interests. This position has been strengthened in the light of recent studies, according to which the forms of corporative governance of the banks perform better under a stakeholders-type structure. As we know this model is very familiar to the savings banks, but not so much to the banks, which have traditionally been governed by their shareholders’ demand for returns on investment. The problem is that theoretically this model is very difficult to implement. However, the historical analysis would endorse the coherence and
strength of the Spanish savings banks’ model of governance, without the fact that some of the problems mentioned before in the prior section can invalidate it.

The experience of the Spanish savings banks strengthens the singular nature of the banking firms, whether they be investor-owned banks, non-profit banks or even cooperative banks. The integration of a structure of multiple interests (customers, civil society, employees, investors, and public administrators in the case of non-profit firms) in their governance generates synergies in the sphere of management and in the definition of companies’ policies. In this sense the management of the savings banks was very dynamic. During the inter-war period some savings banks professionalized the figure of the manager. Later, despite the few incentives that a lowly competitive environment offered, the savings banks’ executives maintained high levels of training. Finally, during the financial transition the role of the CEOs was pivotal in the process of modernising management. In conclusion, in the case of the savings banks, it is probable that the persistence of those channels of multiple interests or stakeholders in the base of their governance has been the guarantor of their continuance in the long run.

7. Acknowledgements

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### Table 1: The Savings Banks Act of 29 June 1880

<table>
<thead>
<tr>
<th>Characteristics and Objectives of Savings Banks</th>
<th>Aspects that the regulation did not have a bearing on the regulation but that pose problems for the savings banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-profit private foundations</td>
<td>• Concession of personal guaranteed loans</td>
</tr>
<tr>
<td>• Charities organisations with fiscal exemptions</td>
<td>• Mortgages</td>
</tr>
<tr>
<td>• Discretion in the establishment of objectives (statutory self-governance)</td>
<td>• Stock Portfolio</td>
</tr>
<tr>
<td>• Home Office supervision</td>
<td>• Purchase and sale of estates</td>
</tr>
<tr>
<td>• Basic Operations:</td>
<td>• Regulation of the policy on new branches and agencies</td>
</tr>
<tr>
<td>a) Saving section: deposits</td>
<td></td>
</tr>
<tr>
<td>b) Monté de Piedad: advances were made</td>
<td></td>
</tr>
<tr>
<td>against some kind of collateral in pawn (jewellery, clothes or securities)</td>
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</tr>
</tbody>
</table>

Sources: Savings Banks Act - 29 June 1880 and author.
### Table 2. Growth of Spanish Savings Banks, 1839-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of savings banks</th>
<th>Total number of banks in CECA</th>
<th>Total deposits in savings banks (pesetas millions)</th>
<th>Deposits in savings banks as per cent of total deposits in Spain (pesetas)</th>
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</thead>
<tbody>
<tr>
<td>1839</td>
<td>1</td>
<td>-</td>
<td>0.3</td>
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<tr>
<td>1850</td>
<td>8</td>
<td>-</td>
<td>4</td>
<td>6.5</td>
</tr>
<tr>
<td>1875</td>
<td>14</td>
<td>-</td>
<td>23</td>
<td>11.2</td>
</tr>
<tr>
<td>1880</td>
<td>26</td>
<td>-</td>
<td>56</td>
<td>12.0</td>
</tr>
<tr>
<td>1885</td>
<td>36</td>
<td>-</td>
<td>73</td>
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<td>103</td>
<td>-</td>
<td>401</td>
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<tr>
<td>1920</td>
<td>102</td>
<td>-</td>
<td>808</td>
<td>15.6</td>
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<td>1925</td>
<td>153</td>
<td>-</td>
<td>1 437</td>
<td>21.6</td>
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<td>1930</td>
<td>213</td>
<td>NA</td>
<td>1 895</td>
<td>19.4</td>
</tr>
<tr>
<td>1935</td>
<td>222</td>
<td>NA</td>
<td>2 516</td>
<td>21.9</td>
</tr>
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<td>1941</td>
<td>-</td>
<td>91</td>
<td>3 361</td>
<td>14.2</td>
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<tr>
<td>1945</td>
<td>-</td>
<td>81</td>
<td>5 908</td>
<td>16.6</td>
</tr>
<tr>
<td>1950</td>
<td>-</td>
<td>81</td>
<td>13 979</td>
<td>19.0</td>
</tr>
<tr>
<td>1955</td>
<td>-</td>
<td>83</td>
<td>34 119</td>
<td>20.7</td>
</tr>
<tr>
<td>1960</td>
<td>-</td>
<td>83</td>
<td>75 219</td>
<td>22.5</td>
</tr>
<tr>
<td>1965</td>
<td>-</td>
<td>85</td>
<td>216 873</td>
<td>27.8</td>
</tr>
<tr>
<td>1970</td>
<td>-</td>
<td>87</td>
<td>574 676</td>
<td>32.4</td>
</tr>
<tr>
<td>1975</td>
<td>-</td>
<td>88</td>
<td>1 523 857</td>
<td>31.2</td>
</tr>
<tr>
<td>1980</td>
<td>-</td>
<td>80</td>
<td>3 675 980</td>
<td>31.9</td>
</tr>
<tr>
<td>1985</td>
<td>-</td>
<td>77</td>
<td>8 266 647</td>
<td>39.3</td>
</tr>
<tr>
<td>1990</td>
<td>-</td>
<td>64</td>
<td>14 731 907</td>
<td>44.7</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>50</td>
<td>23 883 682</td>
<td>48.6</td>
</tr>
<tr>
<td>2000</td>
<td>-</td>
<td>47</td>
<td>36 829 350</td>
<td>52.1</td>
</tr>
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</table>


Note: until 1874 the savings banks deposits are estimates based on net accrued balances of deposits and annual withdrawals according to Anuario Estadístico de España, 1866-67 (see Martínez Soto (2003), p.181).
<table>
<thead>
<tr>
<th>Type of savings banks</th>
<th>Supervising Body</th>
<th>Regulation</th>
<th>Sectorial conflicts</th>
</tr>
</thead>
</table>
| Interwar period       | Ministry of Employment, Commerce and Industry | 1926:  
- It did not establish any difference between savings banks and for-profit savings entities  
- Fixed percentage of deposits invested to be in government debt | • Creation of the banking cartel CSB (1921)  
• Creation of the CECA, the Spanish Confederation of Savings Banks (1928)  
• Creation of the ICCA, Instituto de Crédito de las Cajas de Ahorro (1933). A wholesaler of retail finance.  
• Pressure from the State so that the financial institutions contribute to public investment that is social in nature  
• Governmental interventionism  
• Concern over the lack of control with respect to solvency |
|                       | Ministry of Employment and Welfare | 1929:  
- It re-established the special savings bank statute  
- It re-established their social objective | |
|                       |                               | 1933:  
- Special registry to acquire charter as Savings Banks  
- The social objective takes priority over the objective of solvency  
- Control of loan portfolio and obligatory investment in government debt  
- Creation of the Social Work (provision of a minimum expenditure: 50% of surplus) | |
| Franco dictatorship period (1939-75) | Ministry of Employment and Ministry of Finance | 1939-64:  
- Banking status quo: entry barriers  
- Baking Law of 1946  
- Control over part of the Social Work by the State  
- Control over investments and obligatory investments: securities of the National Institute of Industry and privileged financing for private firms  
- Savings banks’ mergers (1940-63)  
- Economic Stabilisation Plan (1959) | • Strong pressure to finance public investments of a social nature or investments established by the government as a special objective  
• Concern about the entities’ solvency  
• Governmental interventionism over the savings banks’ policies |
|                       | Ministry of Finance | 1962:  
- Banking Law  
- Reorganisation of the monetary authority, endowing the Bank of Spain with a greater role | |
|                       | Bank of Spain | 1969-71:  
- Weak liberalisation of interest rates and of the banking discount rate  
- Establishment of the savings bank and bank coefficient  
- Credit Law of 1971, puts savings banks on a par with banks  
- CECA assumes the clearing functions that pertained to the ICCA (disappears in 1971)  
- Withdrawal of the legal coefficient of liquidity and special discount credits in the Bank of Spain | |
|                       |                               | 1974:  
- Modification of the Bank of Spain’s interest rate  
- Reduction of the investment coefficient | |

Deregulation and Economic Milestones
1975:
• Free opening of offices in each savings banks’ area of influence.
1977:
• Savings bank mergers and takeovers (1976-1985)
• The Fuentes Quintana Reform: granting of definitive equal status between savings banks and banks, reform of savings banks’ bodies of governance
1981:
• Liberalisation of interest rates on active operations
1983:
• Savings banks can open offices abroad
1985:
• Spain joins the European Community
• Law of the Governing Bodies of Savings Banks [Ley de Organos Rectores de las Cajas de ahorro (LORCA)]: the participation of stakeholders is specified
• Savings banks-banks investment coefficients are equalised
1987:
• Liberalisation of interest rates
1988:
• Freedom of territorial expansion granted to the savings banks
1989:
• Progressive disappearance of investment coefficients (until 1992)

Multiple objectives, but solvency is the priority
Conflicts of interest grow among the parties
Asymmetry between savings banks and banks: savings banks can takeover banking networks, but the banks cannot purchase savings banks
What guarantees exist with respect to the independence of the management of savings banks vis-à-vis public administrations?

Sources: Bank of Spain Library and CECA Library, author.
Table 4. Segmentation of Spanish Savings Banks by Volume of Deposits in 1928

<table>
<thead>
<tr>
<th>Deposits in pesetas millions</th>
<th>No. of savings banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 100</td>
<td>5</td>
</tr>
<tr>
<td>100 – 50</td>
<td>4</td>
</tr>
<tr>
<td>50 – 20</td>
<td>8</td>
</tr>
<tr>
<td>20 – 6</td>
<td>18</td>
</tr>
<tr>
<td>6 – 1</td>
<td>35</td>
</tr>
<tr>
<td>1 – 0.5</td>
<td>22</td>
</tr>
<tr>
<td>&lt; 0.5</td>
<td>42</td>
</tr>
</tbody>
</table>

Sources: Statistics from the Caja de Madrid Reports, Table 2 sources and Ceballos (1928), pp. 596-97.
Note: calculated on a sample of 134 entities, including the Post Saving Bank. Average size: 13.7 million pesetas

Table 5: Loans in Spanish deposit entities, 1962-2000

<table>
<thead>
<tr>
<th></th>
<th>Share (in %)</th>
<th>Amount in millions pesetas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banks</td>
<td>Savings Banks</td>
</tr>
<tr>
<td>1962</td>
<td>89.3</td>
<td>10.7</td>
</tr>
<tr>
<td>1965</td>
<td>85.7</td>
<td>14.3</td>
</tr>
<tr>
<td>1970</td>
<td>78.5</td>
<td>19.8</td>
</tr>
<tr>
<td>1975</td>
<td>79.0</td>
<td>19.0</td>
</tr>
<tr>
<td>1980</td>
<td>75.7</td>
<td>21.4</td>
</tr>
<tr>
<td>1985</td>
<td>69.3</td>
<td>27.3</td>
</tr>
<tr>
<td>1990</td>
<td>61.8</td>
<td>35.2</td>
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<tr>
<td>1995</td>
<td>58.0</td>
<td>38.2</td>
</tr>
<tr>
<td>2000</td>
<td>52.0</td>
<td>43.2</td>
</tr>
</tbody>
</table>

Sources: Bank of Spain (Boletín Estadístico del Banco de España)
APPENDIX

Figure 1
Governing and Management Bodies of Spanish Savings Banks during the Interwar Period

Sources: produced by the author using the collection of savings banks’ regulations, statutes and reports from the Bank of Spain library, the Bank of Spain archive, Private Banking, box 104, 106, 107, 117, 542 and from the archive of the Caixa Galicia, Secretary.
Figure 2
Spanish Savings Banks’ Government and Management Bodies in the 1980s

GENERAL ASSEMBLY

BOARD OF DIRECTORS

Staff

General Manager

Audit
Planning, Information and Control
Assistant General Manager

Area II
Manager Territorial Area I
Area III...

Investment
Finance
Marketing
Public Relations

Data Center
Discount Center
Organization and Method

Central Services

Manager

Staff Personnel
Legal Consultancy

Area I

Idem

Management Department
Commercial Department
Financial Department

Idem

Credit

Figure 3
Savings Banks’ Government and Management Bodies at the end of 20th Century

GENERAL BOARD

BOARD OF DIRECTORS

Staff

General Manager

Financial Division
Commercial Division
Operative Division
Planning and Control Division
System Division

General Secretary

Legal consultancy management
Community Projects management

Sources: Savings Entities’ Reports, CECA, author.