

# ROMANCE OF BANKING IN SOUTH AMERICA

### Large Profits for Foreign Institutions in Inviting Field Heretofore Neglected Which Americans Are Likely Soon to Enter

By CHARLES M. PEPPER.

**B**ANKING in South America has its romance. Also it has had, and still has, its profits, which reach romantic figures.

Foreign banking in South America may be said to have begun a little more than half a century ago. It was in 1862 that the London and River Plate Bank was established in Buenos Ayres. It had a subscribed capital of approximately \$7,500,000, of which \$4,500,000 was paid in. It has now a subscribed capital of \$14,000,000, of which \$8,760,000 is paid up. Its reserve is a fraction under \$10,000,000.

During the early years when it was spreading out and establishing branches, comfortable dividends were paid. In 1895 it was going along at a dividend rate of 16 per cent. per annum, with occasional additional dividends in the way of bonuses. For eight or ten years thereafter it paid 19 per cent., then it acquired the 20 per cent. dividend as an annual habit, with the plus sign in some years. Two years ago the shareholders were presented with a special bonus of 10 shillings, or \$2.43, a share.

The net profits of the London and River Plate Bank last year were a trifle over \$2,000,000, while a balance of \$1,500,000 was carried forward. The deposits and current account now range from \$75,000,000 upward.

The Anglo-South American Bank, with a subscribed capital of a little less than \$22,000,000, of which \$11,000,000 is paid up, goes along at a dividend rate of 12 per cent. Last year its net profits were in excess of \$1,500,000.

The British Bank of South America in 1913 paid 17 per cent. on a paid up capital of \$4,866,000. The regular dividend was 12 per cent. and the bonus brought it up to 17 per cent. Then there was an additional bonus of 3 per cent., which made the actual return on the capital invested 20 per cent.

The London and Brazilian Bank also paid a dividend of 20 per cent. on a capital of \$6,000,000. This institution was established a little over half a century ago on a capital of approximately \$2,500,000. For many years it maintained a conservative dividend rate of 10 per cent., but with the increase of capital the rate was advanced until in 1913, with the bonus, it amounted to 20 per cent.

The profits of these five leading European banks of South America have been duplicated by other foreign banks with less capital. The Bank of Madrid and Buenos Ayres, with a capital of \$2,500,000, pays 15 per cent.

Some of these institutions confine their operations to the east coast countries—Brazil, Uruguay and Argentina. Others cover the whole field.

On the west coast, there are other foreign banks. In Chile it has been said that the loans have reached ten times the capital. There have been instances of dividends of 40 per cent., but from 15 per cent. upward is considered satisfactory. The same statement holds true as to Peru.

Ecuador differs from most of the South American countries in that the greater part of the banking funds are native capital. The Guayaquil banks are practically independent of the European chain system. It is considered a poor year when they do not pay from 16 to 20 per cent.

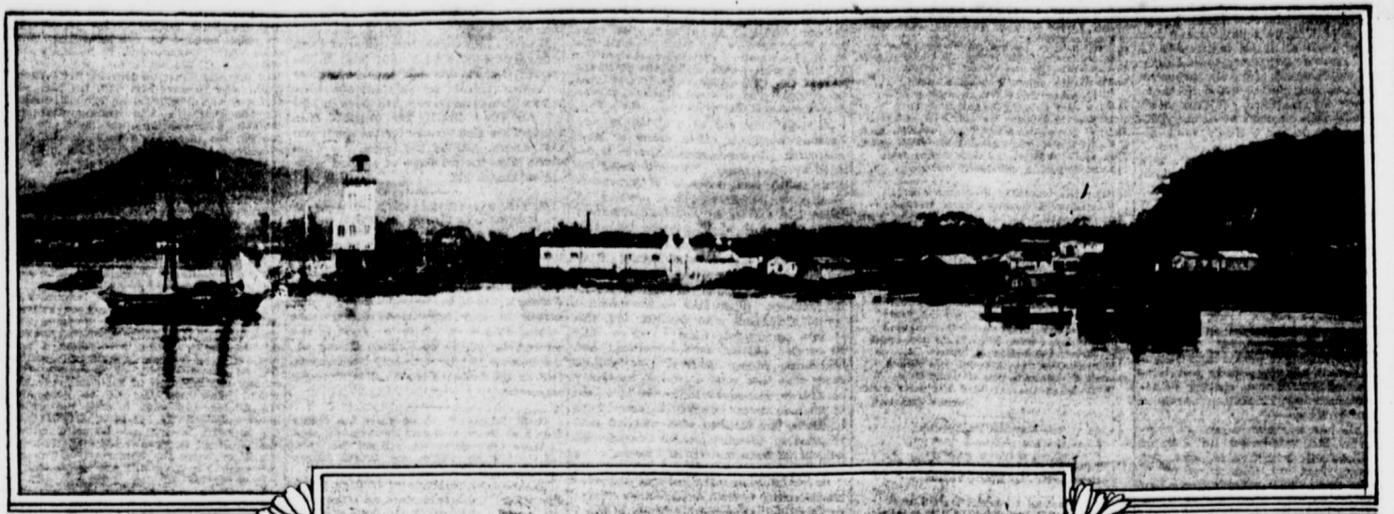
Bolivia has some foreign capital in the form of branch foreign banks, but the tendency there is to encourage the native institutions. The Bolivian Bank of the Nation is in process of reorganization. The authorized capital is \$20,000,000. The Government proposes to take 100,000 shares and to name three out of the seven directors.

Colombia has not much foreign capital invested in her banks. The disordered currency and matters of a political character have discouraged the establishment of European banking institutions. Recent events indicate that American banks may occupy the Colombian field of connection with the rehabilitation of the national finances.

Generally speaking, the progress of banking in the South American countries has been coequal with their material progress.

The Argentine Republic, which has had the greatest material advancement, has also shown the most marked progress in banking. This applies to domestic institutions as well as to the foreign banks.

At the beginning of the present year there were about 150 banks in Argentina, with a total paid up capital of \$533,000,000. The total deposits were approximately \$582,000,000. It is in-



Harbor of Santos, Brazil, from which great quantities of coffee are shipped.

interesting to note that this amount \$193,500,000 was savings deposits. The Argentine Government financial institution, which has some of the features both of the Bank of England and of the Bank of the Nation, is known as the Bank of the Nation. It is No. 18 among the sixty banks of the world which have deposits in excess of \$100,000,000. According to the latest report, that for 1913, its deposits were \$230,000,000.

The deposits of the Bank of France for the same year were reported as \$199,000,000. The Argentine Bank of the Nation was only \$3,000,000 below the Dresdner Bank of Germany, whose deposits are frequently cited as an illustration of German thrift.

The Bank of the Nation is the Government fiscal agency, and its vaults hold the gold on which the Argentine paper currency is based. This is known as the conversion fund. It has 150 branches throughout the republic. Its savings deposits are heavy.

When the disturbance in credits followed the European war it was the Bank of the Nation which was the National City Bank of New York arranged for a mutual credit balance of \$1,000,000 in order to facilitate exchange between the United States and Argentina.

The preponderance of British banking capital in South America appears from the same of the financial institutions. It is the natural result of the fact that for three-quarters of a century surplus British capital found its most profitable field for investment in South America, not only in banks themselves but in railway building and other development enterprises and in general trade.

When Germany began to go after South American trade she saw the need of banking facilities, and she therefore proceeded to get into the banking business. The Banco Aleman Transatlantico, or German Transatlantic Bank, whose sphere of operations is on both coasts, was organized with a capital of approximately \$5,000,000. It is in reality a subsidiary of the great Deutsches Bank of Berlin. Its shareholders are satisfied with dividends ranging from 8 to 10 per cent., since they also reap considerable commercial advantages from the institution.

The foreign banks usually have been organized with a special view to the business of the different European countries whose nationals are settled in the various South American countries. So it happens that there are French banks, Italian banks, Swiss banks, Belgian banks, German banks, Spanish banks and English banks.

A recent illustration of the tendency to form banks based on national interests was the organization of the Dutch Bank of South America, with a capital of \$1,600,000, which was subscribed chiefly in Amsterdam and Rotterdam. It was backed by the shipping interests and by some grain firms which handled part of Argentina's wheat crop.

There is not much direct trade between Holland and Argentina, not one-fifth of that between the United States and Argentina, yet in this instance the Dutch were more enterprising than the Americans, for they organized the bank before any steps had been taken in the United States for similar institutions.

The foreign banks in the South American countries do not appear to excite opposition on the part of the native banks, nor is there much competition with them. All the larger foreign banks have branches which are enabled to do business on a relatively small capital.

Exchange on the European financial capitals in itself affords them a very satisfactory profit. For example, the trade between the United States and the different South American countries is now \$250,000,000 annually. The usual



Rio Branco Avenue, Rio de Janeiro, showing types of business houses.

commission of one-fourth of 1 per cent. on this would be about \$650,000, but in a great many instances one-half of 1 per cent. is charged. Heretofore practically all of this exchange profit has gone to the foreign banks in South America and to their European connections. Since the loans of the South American countries are all

## Went 3,000 Miles to Serve Two Days in French Army

**S**OME first hand information concerning the European war is furnished by Guy de Bouthillier-Chavigny of 41 Hawthorne street, Cambridge, Mass., who has just returned from the battle front in France because he was hit in the groin by a piece of shrapnel and was thus incapacitated for further duty. The remarkable thing about this young Frenchman's experience is that he was on the firing line for only two days, did not fire a shot himself and merely sat in the saddle on his horse awaiting orders to charge until knocked down by a splinter of steel. All this was after a journey of 3,000 miles, and now he is back at his home, a hero among his fellow countrymen.

Bouthillier-Chavigny is the son of the late Marquis de Bouthillier-Chavigny, who took part as the representative of the French Catholics in the centenary exercises of the archdiocese of Boston, and he has been a resident of this country about seven years, having two years when he was doing military duty in the French army. He studied at Bishop's College, Lenoxville, Can., and makes his home with his sister and his brother Alain at Cambridge. He is 25 years old.

He has seven cousins who went to the front when the war broke out. How many of them now live he is unable to say. Alain, who is 28 years old, is awaiting orders from the French Government to join the army. He took a physical examination a few days ago and expects to join an infantry regiment as soon as he lands in France.

Guy was one of the French reservists in this country who responded to the call to the colors in August. He reached Paris on September 19. He was assigned to a troop of cavalry and a day later found himself facing the Germans at Vitry-le-Francois, near the center of the battle line.

"There was practically nothing to do there," he said to THE SUN correspondent at Cambridge. "We were located near a heavy French battery concealed on the side of a hill. We lingered out in front of our horses in case there should be any advance by the enemy or we should be needed for skirmishing. The Germans constantly had our range and shrapnel and heavy shells were bursting about us frequently, a num-

ber of men being wounded. We did not get a good close view of the enemy. "All during September 12 we endured this rather unpleasant situation and were on the same job the next day when a piece of steel hit me in the right groin. Fortunately it did not pierce the flesh, but the concussion was so great as seriously to aggravate a previous injury and to force me to retire. The surgeons examined me and advised me to leave the battle front, as I could no longer remain in the saddle. I made application but found there was no room for me in the administration of the army, so I returned to America.

"The fact that I did not get a look at the Germans is characteristic of the fighting in this war. It is not one of close range encounters. It consists almost entirely of shelling at great distances, with strategic advances and retreats. Up to date the hostile forces have been endeavoring to carry out some plan which would give them an advantage in forcing a close range engagement.

"Now take our position, for example. We were probably from 600 to 800 yards from the Germans at all times during the two days I was with my troop at the front. It was just a case of their shelling us and our returning the fire from our batteries of field howitzers and light guns. That was the case all along the French line from what I could discover.

"Cases of hand to hand conflicts were very scarce and resulted only when soldiers of the opposing sides met in city streets or struggled for the control of a road of some strategic importance. It was almost entirely long range fighting at distances of 800 yards or so, with the other fellows well concealed.

"Losses really had not amounted to much up to the time I left. This is particularly true of the French, whose movements from the beginning have been designed to prevent, if possible, declaration of great forces. Yet the advance of the Germans through Belgium and France cost them a lot of men, many more than it did us, if I was told the truth by other soldiers.

"By the time I had arrived on the scene the Germans had returned beyond Rheims and were commencing to shell that city. There has never been any-

thing like those shells before. When those big 400 or 500 pound masses of metal come along they just carry everything before them. Our men had not seen such things before."

Stories of dudum bullets he attributed to the fact that the nickel caps are frequently scratched off when the bullets hit a glancing blow on gravel, for instance. Later they may lodge in human flesh and expand. Asked as to the numbers in the field, he said there were 2,500,000 French and between 200,000 and 300,000 British on the battle line, with the Germans outnumbering them at all times.

"Ah! but the spirit of the French soldiers was superb," he exclaimed. "They were wonderful. Every one was brave. They fought with grim determination, reckless of life if it could be given for their country. And the English, too, they have done wonderful fighting in this war. Their comradeship with the French is fine.

"Back in the cities the women are doing the men's work. There are no men anywhere but the aged. Every man who can serve is now cared for in the general mobilization, and most of them are at the front. They are now training the eighteen and nineteen-year-old boys, and these will be ready within six months, making, perhaps, another million with the returning reservists and others. Everybody is out to fight for the republic."

"The French sentiment toward the Germans is one of intense hatred, he declared. "They have been false from the beginning," he said, "with their early mobilization and their invasion of Belgium and violation of her neutrality. Then there was the bombardment of Rheims, which was commencing just much up to the time I left. The people were terribly stirred up over that."

Regarding stories of atrocities committed by Germans, he said he imagined that the excesses had been somewhat exaggerated. Stories of drunkenness resulting from too constant indulgence by Germans in champagne and other wines, he said, were true, and parties of the invaders had frequently been surprised by the French when in a state of stupor due to drinking and the Germans had lost important engagements as a result.

held in Europe the European banks in South America through their connections in Europe, generally manage to share in the profits of these loans.

They also find a valuable business in participating in the profits of commissions and of exchanges of the country from which the capital of the bank has been subscribed, and in negotiating the business of the railroads, steamship lines, factories and various industrial enterprises already established.

The coffee valorization plan of Brazil afforded very pleasing profits to the foreign banks in that country as well as to the London bankers who carried it through and to the New York banks which participated through cooperation with London.

Some very romantic profits have been made in promotion enterprises. A big source of profit, especially to the British banks, has been from financing contractors, and especially the contractors who get the Government contracts for harbor and similar improvements. Sometimes the money is advanced by the London banks, but usually they leave it to the banks of English nationality in the different countries where the contracts are let.

Many of the English contractors have credits with the banks in South America which enable them to enter on large undertakings, and in these cases the division of profits with the bank is bound to be very satisfactory to that institution if not quite so pleasing to the contractors.

In the less stable countries the relations of the banks with the Government sometimes are precariously profitable. The Governments need advances to meet current obligations. They arrange big overdrafts, or temporary loans. The bank sometimes gets a commission in addition to a very large discount rate.

Interest rates in the South American countries are much higher than in Europe or the United States, and this is one source of the romantic profits. Commercial discounts may be said to average 8 to 10 per cent., although there is wide variation in the different countries. Twelve per cent. is not considered excessive.

In Colombia an ordinary bank loan with the discount at 18 per cent. is not uncommon, while 24 per cent. excites no surprise. The profit is assumed to be merely proportionate to the risk in accordance with the cardinal principle of banking, and with the knowledge that the bankers' practice of passing the risk along cannot be followed because there is seldom any one to whom it can be passed.

In Chile a discount rate of 10 per cent. is not unusual, and the disordered currency affords opportunities for speculative profits which would make conservative bankers stand aghast. Some of the Chilean banks pay 6 per cent. interest on time deposits.

The Chilean Government, notwithstanding the unstable currency, protects the national credit. When the European war broke out Chile had about \$5,000,000 gold on deposit in London banks as a conversion fund for its paper currency. Some years ago a small part of this fund was placed with the New York bank, and doubtless the Chilean Government now wishes that more of the gold was here.

During the commercial crisis in Argentina last year the Bank of the Nation maintained a discount rate of 7 per cent. This was a steady factor, but Argentina sometimes experiences a much higher rate, especially at periods when two name paper is difficult to negotiate.

The South American system of long interest rates. Retailers who want nine months' goods willingly pay 8 per cent. and upward. Where the jobber or importer refuses this long time they are

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ready to pay the local banks 8 or 10 per cent. if they can get the accommodation.

The establishment of American banks in South America has long been urged by those who have studied the necessities of the trade situation. One reason why American banks have not heretofore been established in South America was the fact that American capitalists, and especially those who controlled banking capital, knew so little of the field.

American investments relatively were so small that there was not much inducement to finance them, and the necessity of providing exchange on New York was not felt to be one that called for philanthropic banking. Occasionally a hint was given that the great London banking houses which had South American subsidiaries preferred that their banking friends in the United States should keep out.

It is also true that one of the great corporations, with a perfectly organized export business, finding its own facilities sufficient, did not take into account those of smaller calibre, and consequently rather discouraged the bank proposition. This corporation, however, afterward changed its point of view, and has sought to cooperate in the recent move for establishing American banks.

Another reason for the failure to secure American banking capital was the fact that the number of Americans engaged in trade in any one country. The American colony in Rio de Janeiro used to consist of 110 individuals in a population of nearly 1,000,000 inhabitants. It is much larger now, but when those 110 Americans talked of the need that their banking friends in the United States should keep out.

In Buenos Ayres there were more and over on the west coast country there were small but aggressive groups. Yet nowhere was there an American colony which in numbers could compare with the English, who are the least numerous, but who have the greatest share of the business.

Notwithstanding the discouragements, careful studies of the situation were made at times by Americans who had banking backing. The general plan usually was to acquire a controlling interest in some bank native to the country and to operate it largely through the native element. The principle was sound, since the good will of the local community is essential to any bank.

Not long ago a plan for the establishment of an American mortgage bank in Buenos Ayres met with favor on the part of some of the bankers in New York. Yet generally responsible banking capital hesitated to venture into South America because of the difference between the American banking system and the European banking system.

Bankers who studied the South American conditions were of the opinion that the only practical scheme was to establish branch banks, and the old national banking law did not permit this.

The Federal reserve act cured this defect. American branch banks in South America now will have all the advantages of independent institutions, together with the benefit of connection with the parent banks in the United States.

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