

REVISTA “ISTO É” DINHEIRO
Magazine cover, issue 668, July 27, 2010

Itaú Bank and its strategic vision for international expansion

By Cláudio Gradilone

The merger that joined Itaú and Unibanco has not been concluded - it should be extended to mid 2010 when 1000 Unibanco branches will be converted into Itaú branches. While an army of employees work on this transformation, Setúbal, Executive President of Banco Itaú Unibanco, and his main executives are already preparing the groundwork for an aggressive growth strategy.

One of the pillars of this offensive is something unique to the domestic banking system: A firm bet on retail banking outside Brazil. Discreet and careful, Itaú Unibanco is analyzing all possibilities to extend its presence into the international arena.

“We are already a presence in all Mercosul countries and in Chile and hope to expand our activities to the retail markets in countries near Brazil,” Setúbal said. He recognizes that size is a challenge. “We have international presence but we are not a global bank; we aspire to be, at a minimum, a regional bank in the next few years,” he said.



Bank branch in Tokyo, right, and building on Nueve de Julio Avenue, Buenos Aires, left, already showing the Itaú brand.

“We have no intention of working retail in all continents. We first test the Latin American market,” Setúbal said. He dismisses trying to work in the European and Asian retail banking markets. “Their cultures are very different,” he added. The second decision is not to begin from a blank slate to prevent from running through the learning curve. “If we go retail, it will be through acquisitions or mergers,”

In 2006, when Itaú bought BankBoston's Latin American operations, that bank's branch in Chile was included in the transaction. It was not a large bank, occupying the 7th position in local ranking but it was essential to help Itaú learn how to work on mature, stable and low-interest markets.

Setúbal did not comment but persons knowledgeable of bank families Setúbal, Villela and Moreira Salles know that Brazilians and Hispanics working in the United States are an appetizing market niche for any banker with regional ambitions.

Itaú Unibanco already has a shortcut to the Hispano-American market: Credit card operations Unibanco had in Mexico, before the merger. Mexico is relevant not only because it is close to Brazil but also one of the most important economies in Latin America. It is also the Latin country with closest ties to the United States.

He again dismissed rumors that circulated in 2008 that he may purchase Banamex, the second largest Mexican bank, belonging to Citigroup. At the time, Citi was going through a most troubling adjustment phase. Desperate for capital, the American bank may have to sell assets.

Coincidentally, at the time of the merger, smack in the middle of the global bank crisis, Setúbal and Petro Moreira Salles both stated having international ambitions. It did not take long for dozens of investment bankers to visit Itaú Unibanco to demonstrate the logic of the Banamex purchase.

For specialists, the strategy of aiming for the retail market outside Brazil makes sense for Itaú Unibanco: "Brazilian banks may not want to limit themselves to operating only within domestic borders," said Antônio Bento Furtado de Mendonça Neto, Senior Vice President of Solving Efeso International, an European consulting firm. "They (the banks) will have to assemble regional operations in order to be visible in the global scenario."

Itaú Unibanco may take advantage of the experience of another bank which chose to defend itself from competitors by growing in Latin America: The Spanish bank Santander. Twenty years ago, Emilio Botín was the head of a family institution with operations limited to a few cities in northern Spain.

Nowadays, Santander is the largest bank in the Iberian Peninsula, one of the largest in Europe, and whose income comes largely from abroad. Latin America is its main market away from home. With almost 600 million consumers, the continent includes 21 countries, 10 territories, generating 9% of world's GDP.

A regional expansion is the best strategy that the Brazilian bank can adopt to be visible in the global scenario. A few years ago, a competitor who felt bothered by Santander's growth, could stop the problem by purchasing bank main office in Spain.

"Today, the Spanish bank is so big that this is no longer possible," said Mendonça Neto. Santander market value at the end of 2009 was US\$ 136 billion. Itaú Unibanco, US\$ 104 billion. Due to the European crisis, the gap between them was reduced.

At the end of July, Santander was worth US\$ 105 billion, whereas Itaú Unibanco was worth US\$ 95 billion, according to Bloomberg. To continue to attack, therefore, is the best defense for the Brazilians. “The banks which do not want to be the target of a compelling proposal from an outside giant will have to develop muscle beyond the Brazilian market,” said the Vice President of Solving Efeso International.

The strategy is not without risks, of course. The main risk is that, by migrating outside Brazil, the alternative for Itaú will be to test less stable markets - one only has to think about an improbable bet on Venezuela, for instance. But, to suffer international turbulences is not new to Itaú Unibanco.

In 2002, when the Argentine government decided to default on its loan, Itaú’s branch in Argentina suffered a huge loss. Fits and starts such as these are found in the path of any bank that decides to stamp its passport. Stay home, however, is not an option. “It is retail that allows for a de facto international expansion,” said Setúbal. “Without it,

Em 2002, quando o governo argentino decidiu não pagar sua dívida, a subsidiária argentina do Itaú teve de amargar um prejuízo milionário. Solavancos desse tipo fazem parte do caminho de qualquer banco que se arrisca a carimbar passaporte. Ficar em casa, porém, não é uma opção. “É o varejo que permite uma expansão internacional de fato”, diz Setubal. “Without it, wholesale activities are not sustainable long term. “

Source: REVISTA “ISTO É” DINHEIRO
Issue 668 | Finances | July 27, 2010 | São Paulo - SP - Brazil

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