Tunnelling when Regulation is Lax: The Colombian Banking Crisis of the 1980s

Carlos Eduardo Hernández[[1]](#footnote-1)

Carlos Caballero-Argáez[[2]](#footnote-2)

Jorge Tovar[[3]](#footnote-3)

**Abstract**

We study the resilience of banks to macroeconomic slowdowns in a context of lax microprudential regulations: Colombia during the Latin American debt crisis of the 1980s. We find that numerous banks underperformed during the crisis, as their shareholders and board members tunnelled resources through related lending, loan concentration, and accounting fraud. These practices were enabled by power concentration within banks, lax regulation, and the expectation of bailouts. We provide evidence for this tunnelling mechanism by comparing the local banks and business groups that failed during the 1980s, the local banks and business groups that survived the crisis, and the former foreign banks—all of which survived the crisis. The regulatory changes enacted during the crisis also lend support to our proposed mechanism.

**Keywords:** Banking, Financial Regulation, Debt Crisis, Tunneling, Related Lending.

**JEL:** N26, G01, G21, G28, G30, E44

# Appendix. Failed banks: details and sources

***Banco de Colombia***

Colombia’s largest bank, *Banco de Colombia*, was part of *Grupo Grancolombiano*, a business group controlling 168 companies, including five financial institutions.[[4]](#footnote-4) *Grupo Grancolombiano* was in turn controlled by a holding, *Cingra*, which was owned by a single person.

The bank's loan portfolio was concentrated on companies belonging to its own group: a lower bound of 16% at the Colombian headquarters and 25% at the Panamanian subsidiary in 1983. Furthermore, the companies of the group were heavily indebted to the bank as loans from the bank to the group amounted to 2.3 times the group’s consolidated equity. It was common to use loans to fund company acquisitions, including the acquisition of shares of the bank itself by companies of the same business group. Debt service on these loans was a major source of losses for the real sector companies of the group. The group avoided regulatory constraints by interlocking ownership among dozens of companies, many created for the sole purpose of blurring property relations.

In addition, the bank used its Panamanian subsidiary to borrow foreign exchange to bail out investment funds managed by its business group in Colombia (Caballero-Argaez, 1988), a practice that violated foreign exchange regulations (Caballero-Argaez, 1988). Other group companies received large loans from the subsidiary and by 1983 half of the group’s debt with the bank had been obtained through the subsidiary in Panama. When international conditions deteriorated and the Colombian peso depreciated, the subsidiary of *Banco de Colombia* in Panama had larger losses than the subsidiaries of other Colombian banks in Panama (Caballero-Argaez, 1988).

When international banks closed their credit lines to the Panama subsidiary in 1983, the subsidiary became illiquid. In response, the Colombian headquarters borrowed directly from international banks and deposited the money in the subsidiary, which allowed the subsidiary to service its liabilities (31% of the deposit) and to extend further loans to the group’s companies (69% of the deposit). 97% of this foreign debt was short-term, due in 1984. By 1985, 51% of the bank’s liabilities were denominated in foreign exchange.

The financial statements of the bank’s headquarters omitted the international loan from 1983. This omission was not an isolated case. In the official statements, non-performing assets amounted to 15% of total assets in 1983. As regulators discovered after the government took over in 1983, non-performing assets amounted to 42% of total assets. 50% of non-performing assets were due to companies in *Grupo* *Grancolombiano*.[[5]](#footnote-5) By 1985, 70% of the group’s debt with the bank was considered nonrecoverable by regulators.

The bank had strong links with the government: the president of the bank and the president of Colombia between 1974 and 1978 were cousins, and the superintendent of companies was the son of an important director at *Grupo Grancolombiano* (Echavarría, 1983, pp. 245-270). Although regulators had detected unsound practices within *Grupo Grancolombiano* since 1980, the government prevented them from informing the public (Echavarría, 1983, pp. 5-34, 245-270). Regulators waited until 1983, when liquidity problems became evident, to take control of the bank, which was bailed out and nationalized in 1986. In the 1990s, the president and main shareholder of the bank was sentenced to prison for violating regulations against related lending, loan concentration, and the use of deposits for company acquisitions.[[6]](#footnote-6)

***Banco Nacional***

The first bank to fail, *Banco Nacional*, was owned by *Grupo Colombia* since 1978 (Donadio, 1983, p. 46). *Grupo Colombia* controlled 60 financial and industrial firms (Donadio, 1983, p. 18). Three firms were at the core of the group: *Banco Nacional*, a bank, *Financiera Furatena*, a financial company, and *Correa Acevedo*, a company that had no legal permission to accept deposits but did so anyway. Thousands of depositors believed that they were depositing their money at *Financiera Furatena*, but instead, their funds got tunnelled towards *Correa Acevedo* (Donadio, 1983, p. 19). Given that the companywas not under the supervision of financial regulators, it took time to uncover *Correa Acevedo's* scheme of using depositors’ money for company’s acquisitions (Donadio, 1983, p. 19). It was not until 1981 that the high concentration of loans from *Banco Nacional* to *Correa Acevedo* alerted officials to audit the bank (Donadio, 1983, p. 20).

Between 1978 and 1982, *Banco Nacional* concentrated its loan portfolio on the owners and companies of *Grupo Colombia* (Donadio, 1983, pp. 39-64). In turn, the companies made loans to their owners and their families, who used the loans to acquire other companies (Donadio, 1983, p. 50). In some cases, the owners pledged assets that did not exist as collateral for the loans (Donadio, 1983, p. 35). It was complicated for financial regulators to discover these transactions because the loans were often made in other people’s name. Sometimes, the debtors were unaware of the loans taken out in their name–an example of identity fraud (Donadio, 1983, p. 33).

In 1981, *Banco Nacional* began to face financial difficultieswhen the companies and owners of *Grupo Colombia* started to default on their debts. According to regulators’ reports, financial difficulties were “mainly and almost exclusively” due to “loan concentration on companies belonging to the *Colombia* and *Correa Acevedo* groups, their main shareholders, and their families.” Furthermore, these loans were “highly and increasingly non-performing.”[[7]](#footnote-7) Nevertheless, the bank continued lending money to the same companies and owners (Donadio, 1983, p. 56). Regulator audits in 1982 revealed that non-performing loans from the *Colombia* group alone represented at least 15% of total loans. Furthermore, non-performing loans across all borrowers were 46% of total loans in 198–much higher than the 3% reported in the bank’s official statements.[[8]](#footnote-8)

When the fraud at *Financiera Furatena* was discovered in June 1982, the public initiated a bank run on *Banco Nacional* (Donadio, 1983, p. 39). The run forced the nationalization and liquidation of the bank that same year.[[9]](#footnote-9) The president of *Banco Nacional* was eventually sentenced to six years in prison for fraud.[[10]](#footnote-10)

***Banco del Estado***

A regional bank founded in 1884, *Banco del Estado* had been private since 1958 (Castrillón, 1983, pp. 15, 45). By 1976, a coalition of shareholders, led by Jaime Mosquera, owned 40% of the bank (Castrillón, 1983, p. 56). Mosquera became president of the bank in 1978, the same year that the bank launched a public offering of new shares. Mosquera used a loan from the bank to buy 74% of the new shares, giving him full control of the bank (Castrillón, 1983, pp. 61-63; Donadio, 1983, p. 70).[[11]](#footnote-11) Next, Mosquera founded 25 companies that took out large loans from the bank (Castrillón, 1983, p. 65).

Between 1978 and 1982, *Banco del Estado* did not comply with reserve requirements, underestimated unperforming loans, made illegally large loans to Mosquera, concentrated loans on shareholders, made loans for company acquisitions, and made loans to employees of the Banking Superintendency—the regulatory agency for banks.[[12]](#footnote-12)

In August 1982, journalists discovered that the loan for the public offering had been obtained through identity fraud (Donadio, 1983, pp. 65-79). This discovery led to a run on the bank that forced its bailout and nationalization in October 1982.[[13]](#footnote-13) In 1996, Jaime Mosquera was sentenced to four years in prison for fraud.[[14]](#footnote-14)

Jaime Mosquera likely learned his modus operandi while working for Unibank, a Panamanian bank owned by World Finance Corporation, an American financial group. He was president of Unibank between 1973 and 1977. Unibank acquired 20% of *Banco del Estado* in 1973, a stake that Unibank sold to Mosquera in 1977 (Donadio, 1983, p. 83). Later, in 1977, the Panamanian Banking Commissioner took control of Unibank in response to large financial losses.[[15]](#footnote-15) Unibank borrowed from investors and other banks in the U.S. and the United Arab Emirates and made loans in South America. However, the loan repayments never entered Unibank’s books but were instead laundered into bank accounts of World Finance Corporation, its companies, and its owner.[[16]](#footnote-16) World Finance Corporation was liquidated after a federal investigation in the U.S. revealed these irregularities in 1978.

***Banco de los Trabajadores***

Founded by labour unions and cooperatives in 1974, *Banco de los Trabajadores* was eventually acquired by the Cali Cartel.[[17]](#footnote-17) The leader of the Cali Cartel, Gilberto Rodríguez Orejuela, owned 67% of the bank and was part of its board of directors by 1980.[[18]](#footnote-18) In addition to the bank, the Cali Cartel owned multiple financial companies in Colombia, an automotive parts distributor, a chain of drugstores, a radio network, an educational institution, a football team, and a bank in Panama.[[19]](#footnote-19) The bank in Panama, used to launder money from narcotics sales, was seized by the Panamanian Banking Commission in 1985.[[20]](#footnote-20)

In 1980, Rodríguez Orejuela sold *Banco de los Trabajadores* to real estate developer, government contractor, and politician Rafael Forero (Rodríguez Olarte, 2013). The new owner used the bank to make large loans to his companies.[[21]](#footnote-21) By 1985, 34% of assets were non-performing according to official financial statements, but the actual ratio was 46%—the bank had underestimated nonperforming loans through transactions with other companies owned by Forero.[[22]](#footnote-22) According to regulators, the non-performing loans were the result of bad risk assessments and loan concentration on Forero and other shareholders.[[23]](#footnote-23) As the bank was becoming insolvent, the government bailed it out and nationalized it in 1986.[[24]](#footnote-24) Forero was sent to prison in the 1990s for an election crime not related to his banking activities (Rodríguez Olarte, 2013).

***Banco Tequendama***

Founded by Colombian and Venezuelan investors in 1976, *Banco Tequendama* was part of the *Tequendama* Group, a financial group specialized in insurance services. Colombians owned 52% of the bank.[[25]](#footnote-25) The bank’s headquarters and nine of the ten branches were located in Colombia.[[26]](#footnote-26) The bank also had a subsidiary in Curaçao.[[27]](#footnote-27)

The bank’s loan portfolio was heavily concentrated on the *Tequendama* group’s shareholders, especially the *Kassin* Group—a Colombian business group that produced textiles, auto parts, and automobiles.[[28]](#footnote-28) The *Kassin* Group experienced financial difficulties throughout the 1980s, weakening the bank’s loan portfolio.[[29]](#footnote-29) In 1984, the group capitalized *Banco Tequendama* through loans rediscounted by the central bank—an indirect bailout by the central bank (Misas, 1987).

By 1985, given that 34% of the bank’s loan portfolio was non-performing, the bank regulator ordered an increase in stockholder equity.[[30]](#footnote-30) The stockholders did not comply and, as a result, the government nationalized and bailed out the bank in 1986. By that year, 88% of the loan portfolio was non-performing, 71% of which was not backed by collateral. For the subsidiary in Curaçao, 61% of the loan portfolio was not performing due to loans to the Venezuelan bank shareholders.

After nationalizing *Banco Tequendama*, the Colombian government found that “the Venezuelan branches had been sacked; there were no ledgers nor promissory notes.”[[31]](#footnote-31) Regulators also found that the bank’s financial statements had overestimated profits and omitted loans from international banks.[[32]](#footnote-32) These loans were prohibited by foreign exchange regulations, which the bank had also infringed by taking deposits in Curaçao.[[33]](#footnote-33)

***Banco del Comercio***

Founded in 1948 by the National Merchants Guild, the bank fully remained in Colombian hands until 1967, when Chase acquired a 35% stake (Herrera, 1983; Granados, 2019). Another 36% belonged to three companies whose shareholders were almost identical—five were shareholders of the three companies, four were shareholders of two companies, and one was shareholder of one company (Herrera, 1983). The only representative of Chase on the bank’s board was also a shareholder in the three companies.

*Banco del Comercio* began making loans to board members and their companies in 1979.[[34]](#footnote-34) In 1982, these loans amounted to 300% of equity, had subsidized rates, and were often not backed by adequate collateral.[[35]](#footnote-35) Furthermore, the bank used accounting tricks to overestimate its income from non-performing loans.[[36]](#footnote-36) In addition, the bank overreported the quality of its loan portfolio.[[37]](#footnote-37)

In 1982, a Chase employee denounced that the loan portfolio of *Banco del Comercio* was concentrated on its own shareholders and board members, including the Chase representative on the board (Donadio, 1983, pp. 128-129; Lernoux, 1984, pp. 138-139). The same employee also revealed that some loans were approved in exchange for bribes. Furthermore, he revealed that the Chase representative on the board had made a proposal to over-report expenses and split the difference with the employee and had also tried to bribe him in exchange for not reporting his findings to the headquarters in New York.[[38]](#footnote-38) The whistleblower, a Chase employee since 1974, was fired, and Chase did not change its representative on the board. A Colombian congressman later denounced that the family of the Chase representative owned stakes in companies that, in turn, owned *Banco del Comercio* shares and received loans from *Banco del Comercio* (Ordoñez, 1989, pp. 25-26). The Chase representative became the president of *Banco del Comercio* in 1984.[[39]](#footnote-39) The regulator eventually fined the representative for approving larger and riskier loans than regulations allowed.[[40]](#footnote-40)

By 1986, 18% of the loan portfolio of the bank was non-performing.[[41]](#footnote-41) In 1987, the government proposed a relief program in which the government would purchase toxic assets from the bank through a repurchase agreement expiring five years later.[[42]](#footnote-42) This relief program was not proposed to other banks with financial problems during the crisis. A plausible explanation for this special treatment is that a shareholder and former board member held at that time a high position within the Colombian government. Pressure from the press and the Colombian congress prevented the relief program from being implemented. In consequence, the bank regulator ordered an increase in stockholder equity, with which the shareholders did not comply.[[43]](#footnote-43) The government bailed out and nationalized *Banco del Comercio* in 1987.

# Sources and Official Publications

Half-Yearly Report, Banco Mercantil, December 1979

Half-Yearly Report, Banco Mercantil, December 1980

Half-Yearly report, Banco Royal Colombiano, December 1980

Annual Report, Banco Internacional, 1980

Banking Superintendency’s Internal Memorandum, August 6, 1981

Banking Superintendency’s explanatory memorandum for Resolución 3259 de 1982

Banking Superintendency’s Memorandum 102 of 1983

Annual Report, Banco del Comercio, 1984

Letter DAB-0570 from the Banking Superintendency’s first delegate, 1986

Letter DAB-0780 from the Banking Superintendency’s first delegate, 1986

Banking Superintendency’s Internal Memorandum, September 15, 1992

Supreme Court, Sala de Casación Penal, radicado 6114, MP: Jorge Carreño Luengas, 1992

Supreme Court, Sala de Casación Penal, Decisión sobre recurso de casación. Delito: Concentración indebida de créditos. Radicado 6114, 1992

Informe de Labores. Banking Superintendency, 1987

Sentencia 1443 del Consejo de Estado, 1995

Banking Superintendency’s Derecho de Petición 2023089069-005-000, September 18, 2023

1. Colombian Ministry of Commerce, Industry and Tourism. Email: cehernandez.econ@gmail.com. ORCID: 0000-0003-0888-5192. The analysis and conclusions set forth are those of the authors and do not reflect the official position of the Ministry. The research for this article was conducted while the author was an assistant professor at Universidad de los Andes. [↑](#footnote-ref-1)
2. Department of Economics, *Universidad de los Andes*. Email: [ccaballero@uniandes.edu.co](mailto:ccaballero@uniandes.edu.co). ORCID: 0000-0001-7272-8752. Carlos is also chair of the board at BBVA Colombia S.A. In addition, Carlos was an advisor at the Colombian central bank between 1984 and 1986 and was president of the Colombian Banking Association (*Asobancaria*) between 1987 and 1990. [↑](#footnote-ref-2)
3. Department of Economics, *Universidad de los Andes*. Email: jtovar@uniandes.edu.co. ORCID: 0000-0001-5525-6829. [↑](#footnote-ref-3)
4. Our main source for *Banco de Colombia* is a regulator’s report based on information gathered after the government seized the bank in 1983: ‘La Comisión Nacional de Valores y sus actuaciones frente al Grupo Grancolombiano’. Comision Nacional de Valores, 1986, p. 199-276. Unreferenced statements about *Banco de Colombia* included in this appendix are based on this report. [↑](#footnote-ref-4)
5. 25% was owed by IDEMA, a public institution whose debt was paid in full by the government in 1985. [↑](#footnote-ref-5)
6. The main crime was “undue concentration of loans.” Decisión sobre recurso de casación. Delito: Concentración indebida de créditos. *Supreme Court, Sala de Casación Penal*, radicado 6114, MP: Jorge Carreño Luengas. 1992.

   51 meses de cárcel a Michelsen (1990, September 27). *El Tiempo*.

   Ayer, segunda condena en contra de Michelsen Uribe (1992, September 9). *El Tiempo*

   Donadio (1984, pp. 20, 65) [↑](#footnote-ref-6)
7. Explanatory memorandum for Resolución 3259 de 1982, Banking Superintendency. [↑](#footnote-ref-7)
8. Own calculations from balance sheets and the explanatory memorandum for Resolución 3259 de 1982, Banking Superintendency. [↑](#footnote-ref-8)
9. Resolución 3259 de 1982, Banking Superintendency [↑](#footnote-ref-9)
10. Condena por crisis financiera de 1982 (1996, June 20). *El Tiempo*. In the Colombian Penal Code, fraud is defined as benefiting from deceiving another person to the detriment of that person. [↑](#footnote-ref-10)
11. The transaction was part of a public offering of new shares. [↑](#footnote-ref-11)
12. Sentencia 1443 del Consejo de Estado, 1995

    Executive resolution 203 of 1982. [↑](#footnote-ref-12)
13. Resolution 5387 of 1982

    Executive resolution 203 of 1982. [↑](#footnote-ref-13)
14. Condena por crisis financiera de 1982 (1996, June 20). *El Tiempo*. In the Colombian Penal Code, fraud is defined as benefiting from deceiving another person to the detriment of that person. [↑](#footnote-ref-14)
15. First National Finds Venture in Panama Less than Success. (1978, January 15). *The Courier-Journal.* [↑](#footnote-ref-15)
16. Arab Sheiks sue Exile over 37 million. (1978, March 8). *The Miami Herald.* Fortune Built on paper, Telex. (1980, May 11). *The Miami Herald.* U.S. Readies Indictment on Bank Scam Charges. (1980, May 11). *The Miami Herald.* [↑](#footnote-ref-16)
17. Por $ 3.225 Millones Se Vendió Bantrabajadores. (1991, August 31). *El Tiempo.* [↑](#footnote-ref-17)
18. Nexos de ‘narco’ y un rector. (2008, January 22). *El Espectador.  
     Banco de los Trabajadores*. Annual Report. 1980. [↑](#footnote-ref-18)
19. El Diario Oculto de Alberto Giraldo. (1995, June 4). *El Espectador.* Nexos de ‘narco’ y un rector. (2008, January 22). *El Espectador.* Así influyó el cartel de Cali de los Rodríguez Orejuela en el fútbol colombiano (2022, June 1). *El Espectador.* [↑](#footnote-ref-19)
20. El Rodríguez Modelo 83. (2008, January 22). *Semana* Colombians’ bank seized by Panama. (1985, March 13) *The Miami Herald*

    U.S. Freezes Colombian Bank’s Accounts. (1985, April 5) *The Miami Herald* [↑](#footnote-ref-20)
21. Letter DAB-0780 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/17/03.  
     Por $ 3.225 Millones Se Vendió Bantrabajadores. (1991, August 31). *El Tiempo.* [↑](#footnote-ref-21)
22. Letter DAB-0780 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/17/03. [↑](#footnote-ref-22)
23. Letter DAB-0780 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/17/03. [↑](#footnote-ref-23)
24. Resolución 12 de 1986, FOGAFIN.

    A Subasta, El Banco de los Trabajadores. (1991, June 5). *El Tiempo.* [↑](#footnote-ref-24)
25. *Banco Tequendama*, Annual Report, 1979.

    Recupérase el hemisferio. (1976, May 30). *El Miami Herald.* [↑](#footnote-ref-25)
26. *Banco Tequendama*, Annual Report, 1979. [↑](#footnote-ref-26)
27. Letter DAB-0570 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/06/03. [↑](#footnote-ref-27)
28. Letter DAB-0570 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/06/03.

    Informe de Labores. Banking Superintendency, 1987, p. 88.  
     *Banco Tequendama*. Annual Reports, 1980 and 1982. [↑](#footnote-ref-28)
29. Informe de Labores. Banking Superintendency, 1987, p. 88.

    Colombia: Fiat sale may have hidden component (1982, August 27). *LatinNews.*

    Los bancos aceptan el reto japonés (1986, June 15). Semana

    ¿Solución Salomónica? (1986, July 27). Semana

    No a los Kassin (1987, July 13). Semana

    Superintendencia de Sociedades (2012, pág. 26) [↑](#footnote-ref-29)
30. The sources for this paragraph are:   
     Informe de Labores. Banking Superintendency, 1987, p. 86-88.  
     Letter DAB-0570 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/06/03. [↑](#footnote-ref-30)
31. Statement by the chair of FOGAFIN during a debate in the House of Representatives, August 10-30, 1988, cited by Child and Arango (1988, p. 267). [↑](#footnote-ref-31)
32. Letter DAB-0570 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/06/03. [↑](#footnote-ref-32)
33. Table 5 and Letter DAB-0570 from the Banking Superintendency’s first delegate to the director of FOGAFIN. 1986/06/03. [↑](#footnote-ref-33)
34. Statement by the chair of FOGAFIN during a debate in the House of Representatives, August 17, 1988. Cited by Ordoñez (1989, págs. 27, 99) [↑](#footnote-ref-34)
35. Report to the banking superintendent by a subordinate, November 24, 1982. Transcribed in Ordoñez (1989, pág. 45). [↑](#footnote-ref-35)
36. Statement by the chair of FOGAFIN during a debate in the House of Representatives, August 17, 1988. Cited by Ordoñez (1989, pág. 94) [↑](#footnote-ref-36)
37. Informe de Labores. Banking Superintendency, 1987, p. 85 [↑](#footnote-ref-37)
38. Autopréstamos en Banco del Comercio revela publicación en EE.UU. (1982, October 4). *El Tiempo* [↑](#footnote-ref-38)
39. Annual Report, Banco del Comercio, 1984 [↑](#footnote-ref-39)
40. Multados exdirectivos del Bancomercio (1989, September 22). *El Espectador*. Reproduced by Ordoñez (1989, págs. 154-155) [↑](#footnote-ref-40)
41. Informe de Labores. Banking Superintendency, 1987, p. 85 [↑](#footnote-ref-41)
42. Editorial (1987, June 8). *El Tiempo.* Cited by Ordoñez (1989, pág. 14) [↑](#footnote-ref-42)
43. Informe de Labores. Banking Superintendency, 1987, p. 85 [↑](#footnote-ref-43)