Growing from Crises. The Portuguese Saving Bank Montepio Geral in the nineteenth-century

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Introduction

We started in the last fall a doctoral thesis dedicated to savings banks in Portugal entitled *Between Mutualism and Capitalism: the first century of the Montepio Geral (1840-1940)*. Our research focuses mainly on the specificity of the *Caixa Económica Montepio Geral*, a saving bank attached to the mutual association Montepio Geral, within the context of saving banks in nineteenth- and twentieth-century Portugal.

The foundation model chosen by the *Caixa Económica Montepio Geral* (henceforward: CEMG) followed a path trodden by several savings banks in different European countries, as documented by the vast literature on the creation and development of these organizations from the late eighteenth century.[1] Essentially, this model blended philanthropic objectives with a profit-oriented capital management. Like most of its European counterparts, the CEMG was attached to a Mount of Piety (port. *Montepio*) from its inception. The sole purpose of its existence was to contribute to the sustainability of the mother institution. In these circumstances, its profits were diverted to the payment of pensions of the *Montepio* members. Our thesis aims to understand how this relationship changed during the course of a century (1840-1940). Indeed, there

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[1] PIX, Manfred e Hans PHOL (dir.). L'Histoire dês Caisses d'épargne européenne, vol.2, *La diffusion de l'idée de caisses d'épargne au XIXe siècle*, Paris, 1993; DUET, Daniel. *Les Caisses d'Épargne*. Paris, Seuil, Que-Sais-je?, Les éditions de l'Épargne, 2000; CRISTEN-LÉCUYER; Carole. *Histoire Sociale et Culturelle dês Caisses d'Épargne en France, 1818-1881*. Paris, Economica, 2004; HORNE, H. Oliver. *Savings Banks*. London, Oxford University Press, 1947.

is an underlying tension between a mutual association, directed towards the promotion and protection of mutual interests of members, and a financial institution, which has to be driven by a sustainable maximization of the returns from capital. Did this relationship originate internal conflicts that thwarted the development of the institution or, conversely, did the connection between the capital-maximizing drive and the stricter limits of the members' interests enhance the long-term prospects of the institution? Economic crises, especially financial ones, play a large part in this research insofar as they tend to question the solidity of the institutions and of their options. In the case of a saving bank linked to a mutualist association, one has to ask whether the capital-maximizing drive allowed the parent association to live through difficult moments or, conversely, whether a long-term, risk-averse mutualist orientation, with an emphasis on the responsibility towards the members, helped to insulate savings banks to overcome times of financial and economic hardship.

Hopefully, our thesis will provide adequate answers to these questions. Previous research shows that the CEMG and the mutual association prospered from the early 1840s to the end of the nineteenth century, a period of major political, economic and financial upheaval. Moreover, looking at the internal organization, it is possible to say that savings banks grew in importance within *Montepio* over the same period. Why did this happen? Did the economic fluctuations that affected this period contribute towards the strengthening of the CEMG? If so, what was the incentive provided by extreme economic fluctuations, namely the spurts of growth and the financial and banking crises, which the country experienced in equal measure during this period? Finally, did the public credibility of the mutualist association contribute to the success of the CEMG?

Whilst these issues are still being researched, the present paper presents some preliminary answers to some of these questions. What follows is only a part but one that, as we understand, might contribute a great deal to the advance of these queries. Indeed, by analyzing the behavior of CEMG during the two major economic events that occurred in Portugal in the second half of nineteenth century, we intend to show that extreme changes in economic conditions, whilst plunging most of the banks in uncertainty, constitute unique opportunities for savings banks integrated in mutual associations. Given that these banks are traditionally more risk-averse in their asset management they might prove more resistant and acquire more importance within the institution and also enlarge their share in the market at the cost of the conventional, larger banking institutions with which they compete.

Our working hypothesis is that saving banks linked to non-profit institutions can thrive in adverse economic situations for two reasons. First, the reputation and prestige of these institutions instill confidence in the public. The social responsibility vis-à-vis the members enhances their credibility in a way that profit-oriented banks cannot. Second, extreme economic fluctuations are powerful incentives for these saving banks to emancipate from their limited role as cashiers and acquire greater weight within the parent organization and/or within the market in which they compete.

In order to test our hypothesis, we follow three lines of research. First, we will focus on the diminutive role played by the CEMG within the parent institution *Montepio* in the period between its formation in 1844 and the early 1870s. At this stage, mostly after 1850, the country experienced some long-due economic, financial and political stability that provided the encouragement for the expansion of this, and many other, mutual associations. The CEMG operated within the strict bounds set by the members of the *Montepio Geral*, who deliberately opted for minimizing risk in the management of financial assets, preventing the risk-taking that a more typical banking organization would do in such seemingly favorable circumstances.

Then, we will show how this defensive approach was challenged twice in a short period time. First, by a banking boom in Portugal that lasted from 1870 and 1875. This circumstance led some within *Montepio Geral* to question whether it made sense to hoard so much and invest so little, whilst this debate did not continue after 1876 when a violent banking had ravaging effects on the sector. The second challenge was sovereign debt and monetary crisis of 1891, with its political and economic consequences. By then, *Montepio* came out stronger as it had learned the lessons from the crisis of 1876 and had reformed the internal organization of the CEMG.

1. Small deposits; big future

When the *Montepio Geral* was founded, in 1840, the Portuguese banking system was starting to experience a very favorable period. The 1840s saw the emergence of the first Portuguese savings banks, including the CEMG (founded in 1844).[2] The role of assigned to the *caixa* in the mutual association was clearly ancillary: according to the first statutes of the *Montepio*, the purpose of the CEMG was to contribute towards the broad objectives of the mutual association, i.e. providing relief to members, pensions to the families of the deceased members and paying dowries to single female pensioners. One would be tempted to think that because of its role as the main material support of the mutual association, the CEMG would duly acquire great preponderance within the

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[2] For know more about portuguese savings banks see VALÉRIO, Nuno (coord.). *História do Sistema Bancário Português*, vol. I, *da Formação do Primeiro Banco Português à Assunção pelo Banco de Portugal das Funções de Banco Central (1822-1931)*, Lisboa, Banco de Portugal, 2006, 71.

Montepio. Yet, that did not happen. Until the 1870s, the CEMG was dominated by the mutual association, a feature that can be explained by three different reasons that are *infra*e analyzed with no special order.

The first reason was the lack of autonomous management bodies and the consequent incapacity to interfere with the financial management of the *Montepio*. The CEMG was a valuable source of funding and its profits were important for a parent association that was far from being financially self-sufficient. Yet, it was not the sole source of funding and, in the eyes of the members it was not even the most important. They, erroneously, deemed their contributions and entry fees as perfectly sufficient for attaining long-term sustainability.

Similarly, the organization of the capital management within *Montepio Geral* did not assign much importance to the *caixa*. Between 1840 and 1844, before the constitution of the CEMG, the obligations of the *Montepio Geral* towards its members were ensured by two funds, the Permanent and the Available funds. The Permanent Fund was made of some types of revenues, namely a percent of entry fees, monthly charges, the entire charges of the first year of a new member, and 20 per cent of the annual balance of the Available Fund. The Available Fund was charged with all the operation expenses and received the bulk of the monthly charges, the returns from capital and fines arising from the members' grave infractions.

When it was licensed by the Government in 1844, the *caixa* operated under this structure, except for the fact that the Permanent Fund started to receive 30 percent of the annual balance of the Available Fund, instead of the previously stipulated 20 per cent. This change did diminish the importance of the latter and of the directors of the *Montepio Geral*, but it did not warrant any importance to the CEMG, whose gross revenue was entirely assigned to the Permanent Fund (though not the expenditure).

Additionally, the design of the *caixa* limited its growth potential. The CEMG opened to the public in 24 March 1844 but only performed pawn loans in 12 May, accepting only IOUs, gold, silver, jewelry or any good worth at least 600 *reis*. Pawn broking remained the only business managed by the *caixa* with the *Montepio* directly managing its more prized assets, namely stock, and deciding on investments and loans. As mentioned, gross revenue entered the Permanent Fund, whilst current expenses were paid out of the Available Fund.

The second reason can be sought in the regulation of deposits. As noted, since its foundation of *Montepio* administrations opted for financial security, reinforcing the prudence, typical to in the management of saving bank, with a powerful concern for the survival of the institution. Indeed, members feared that a large amount of deposits in the *caixa* endangered the institution in the event of a bank run. These reserves are understandable if we acknowledge that the pensions were paid from the association's capital as well from its returns.

Indeed, internal organization of *Montepio* was hardly conducive to the growth of the *caixa*. The administrative bodies included the General Assembly (which reunited all members), the Bureau of the General Assembly, an Audit Committee and a Board of Directors elected by the General Assembly to whom it was accountable. The Board was the responsible for the management of the assets of the *Montepio* following a broad mandate by the General Assembly and requiring its approbation for major decisions.

The careful reading of the minutes of the General Assembly shows that for most members safe applications of capital outweighed any capital-maximizing opportunities. This makes sense bearing in mind that the eventual gains would not result in the distribution of dividends and, most of all, that the pensions of the members of the

Montepio were paid according to a rigid plan that bore no relationship with the assets held by the mutual association of the profits generated by the CEMG.

Thus, insofar as the association had a healthy balance sheet year after year, members considered that the CEMG had achieved its goals. This is clearly denoted in several discussions about the financial stability of the institution, before the first years of the twentieth century, when actuarial concerns started to prevail. Throughout the nineteenth century, the dominant opinion was that it was necessary to limit the threats posed by the CEMG, mainly the risk of massive deposit withdrawals which would endanger not only the CEMG but also the entire association. From its origins, the savings bank was strongly limited by a series of precautionary regulations aimed at reducing the effects of this threat. The main limitations were the minimum and maximum value of the deposits and the prohibition of more than one deposit per person. Minimum and maximum deposit values were set at, respectively, 100,000 and 500,000 *reis*. The General Board of the *Montepio Geral* altered these limits in 1846, perhaps as a response to a minor banking crisis that, incidentally, did not affect the CEMG. After 1846, depositors had to send a written request in eight days' notice for withdrawals in excess of 10,000 *reis*, whilst the compounding interest did not apply in deposits in exceed of 500,000. It should be noted also that since 1844 the interest rate offered on deposits was defined on a yearly basis by the General Assembly and remained always below 3 per cent. Again, this followed the policy of reining in excess deposits.

As a result of this policy, in 1860, sixteen years after CEMG opening to the public, deposits reached some 50,000,000 *reis*, whilst the total assets owned by *Montepio Geral* were in the region of 243,000,000 *reis*. Despite the social pervasiveness of the parent association, the amounts deposited in the vaults of CEMG stood only for 1 percent of all capitals deposited in Portugal in 1860. Only in 1875 this share will reach 2 percent. [3]

As the country's economic situation improved, i.e. from the 1850s on, the ancillary role of the CEMG was increasingly questioned. In fact, the members who had had more responsibility within the institution, especially those who had occupied positions in the Board, but also those who commanded more attention in the General Assembly, advocated a more room for asset managing and a greater economic role of the CEMG in raising the capital of the association. Many contemporary reports from the Board worry about the small growth of the deposits vis-à-vis the money supply. In 1870 the deposits in CEMG amounted only to 138,000,000 *reis*, when the assets of the *Montepio* totaled some 715,000,000 *reis*. The position of the *caixa* within the Portuguese banking system was also negligible as it represented no more than 1 per cent of total deposits.[4]

It should be noted also that the depositors had no interference in the administration of the *caixa*. At best, as stated in the regulations of the CEMG, the depositors who were also members of the *Montepio* could elect one of two representatives in the governing body of the association, if their personal deposits exceeded 10,000,000 *reis*, a sum attained in 1850.

Increasingly, as economic growth became more intense, the mutual association felt the incentives to allow more autonomy to the *caixa*. This tension was felt in the General Assembly of the *Montepio Geral*. Members who advocated an increase in pensions were opposed by members who argued that this increase was misguided and that could

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[3] NUNES, Ana Bela, Carlos Bastien e Nuno Valério. *Caixa Económica Montepio Geral. 150 Anos de História 1844-1994*, Lisboa, Montepio Geral, 171.

[4] Idem, ibidem

only happen after some financial stability was attained through a greater diversification of the sources of revenue, which essentially implied extending the powers of the *caixa*.

2. From the jogging to the run

By 1870, some members were pressing forward a new role for CEMG. In fact, there was a clear perception that Portuguese economic had definitely put aside the economic, political and financial upheaval of first half of the nineteenth century. The new regime, the 'Regeneration',[5] secured stability and was following a development policy aimed at bringing Portugal closer to the northern European industrial countries. As adherence to the gold standard allowed for exchange rate stability and helped to attract external investment, the Portuguese capital market and the banking system grew intensely during the decades between 1850 and 1870, despite some minor disturbances.[6]

The mood remained buoyant in the early 1870s: capital markets were flush with liquidity, largely because the remittances of Portuguese emigrants in Brazil had resumed stronger than ever, after a brief interruption caused by war in South America (1874-1860). This allowed the state to increase the quantity of money: whilst there

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[5] FERNANDES, Paulo Jorge. "Política Económica." In Pedro Lains e Álvaro Ferreira da Silva (dir.). *História Económica de Portugal 1700-2000*, vol. 2, *O Século XIX*, Lisboa, Imprensa de Ciências Sociais, 2005, 393-419.

[6] MATA, Maria Eugénia. "As crises financeiras no Portugal contemporâneo: uma perspectiva de conjunto." In MATOS, Sérgio Campos (Coord.). *Crises em Portugal nos séculos XIX e XX*, Lisboa, Centro de História de Universidade de Lisboa, 2002.

were 6 millions *reis* in circulation in 1870, the figure for 1875 was 70 millions *reis*.[7] Despite the slow growth, these factors stimulated a boom in the Portuguese banking system, which was manifest in the growing figures of banks and bank deposits. There were ten banks in 1870 and 51 banks in 1875[8], while the value of deposits underwent a 13-fold increase, with net deposits of cash reserves to spend 5 thousand stories in the mid-1850s to about 15 thousand tales in the mid-1870s.[9]

This newly-found exuberance posed a new challenge to members of the, hitherto prudent and risk-averse, *Montepio*. Why should the CEMG stay away from this boom? Would it made sense to follow the trends of Portuguese banking and allow more autonomy to the *Caixa* to manage its assets? Or should the *Montepio* stick to its tried-and-tested, prudent habits? The dilemma was whether to increase incentives to large depositors in the CEMG and invest in the booming market, running the risk of illiquidity, or to persist in the policy of favoring small deposits that were easier to satisfy in the event of bank run?

The Boards of Directors had already tempted the General Assembly with a change of policy in the sense of assigning to the CEMG a more active role in the capital markets.

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[7] VALÉRIO, Nuno (coord.). *História do Sistema Bancário Português*, vol. 1, *da Formação do Primeiro Banco Português à Assunção pelo Banco de Portugal das Funções de Banco Central (1822-1931)*, Lisboa, Banco de Portugal, 2006, 109.

[8] LAINS, Pedro. *História da Caixa Geral de Depósitos 1876-1910. Política e Finanças no Liberalismo Português.* Lisboa, Imprensa de Ciências Sociais, 2002, 64.

[9] VALÉRIO, Nuno (coord.). *História do Sistema Bancário Português*, vol. 1, *da Formação do Primeiro Banco Português à Assunção pelo Banco de Portugal das Funções de Banco Central (1822-1931)*, Lisboa, Banco de Portugal, 2006, 132.

In 1863, for instance, the Board in office sought to give greater visibility to the institution and to show its transparency and credibility by publishing the figure for monthly deposits in CEMG. This did not entail any changes but it had good effects, as it resulted in attracting more clients. Still, the reforms of the association statutes in the following year maintained the maximum 500,000 *reis* per depositor. In 1865 the Board adopted checks with coupons in order to facilitate the members' payments of their contributions, which encouraged them to deposit their money in the CEMG.

In 1873 the Board lamented in its yearly report presented to the General Assembly that the rise in deposits was thwarted by the maximum deposit limit of 500,000 *reis*. In the following year, the proposal to augment this limit went through and the General Assembly approved that the new ceiling of 2 million *reis.* While most members were infected by the ruling optimism in Portuguese finances, this move prompted several questions from members who questioned whether this change suited their interests. This decision rekindled the debate about the role of the CEMG in the General Assembly. Among those who defended the path of prudence hitherto followed, some argued that the role of the *Caixa* should be the security of the mutual association and "to promote the regeneration of the lower classes", giving several examples of European savings banks.[10] After the discussion, the changes in the profile of the *Caixa* were limited to the increase in the maximum limits of deposits. This outcome can be explained by the sway the directions acquired over the General Assembly, especially in terms of asset management. Soon (1875), a ruling of the General Assembly authorized the Direction to set the threshold values of deposits, which was duly increased to 10 million. The result

[10] PIX, Manfred e Hans Pohl (dir.). *L'Histoire dês Caisses d'épargne Européenne*, vol.2, *La diffusion de l'idée de caisses d'épargne au XIXe siècle*, Paris, Les éditions de l´epargne, 1993.

was a prompt increase in deposits that led the Direction to claim that in one year the CEMG accumulated more wealth than in the last three decades!

All in all, the new rules allowed the CEMG to increase its market share to 2% of total deposits in the country and to gain more autonomy within the association.[11] The timing of this change, however, could not have been worse. The bank expansion occurred between 1870 and 1875 had been, in fact, largely speculative and did not rest in genuine economic growth. Indeed, while capital was abundant, banks struggled to find in the domestic market good applications for their capital and deposits. [12]

Financial speculation was cut short by a banking crisis, which erupted on May 6, 1876. As widely referred in the relevant literature,[13] a banking crisis is always difficult to classify. The trouble began when the Spanish bank Roriz, which had an agency in Porto, collapsed. This bankruptcy led to the devaluation of the 3 percent titles of Spanish public debt, of which Portugal held about 70,000 million in nominal value, a value equivalent to 20% of the Portuguese state debt. The devaluation forced various bankers in Porto to suspend their payments, starting a process that spread rapidly through the banking system since many organizations had financial assets in other banks' securities, increasing the risk of contagion.

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[11] NUNES, Ana Bela, Carlos Bastien e Nuno Valério. *Caixa Económica Montepio Geral. 150 Anos de História 1844-1994*, Lisboa, Montepio Geral, 171.

[12] LAINS, Pedro. *História da Caixa Geral de Depósitos 1876-1910. Política e Finanças no Liberalismo Português.* Lisboa, Imprensa de Ciências Sociais, 2002, 74.

[13] We follow the Richard Grossman summary in *Unsettled Account. The Evolutions of Banking in the Industrializes World Since 1800,* Princeton, Princeton University Press, 2010.

Eventually, other institutions underwent severe payment problems. The 1876 crisis conforms to a well-known pattern of a disorder in financial markets leading to the breakdown of asset prices and insolvency throughout the financial system affecting its ability to provide capital.[14] Thus, the solution was precisely to provide the Portuguese financial system with capital. For the first time in Portugal, this task was performed by the central bank, which acted as a lender of last resort (through loans negotiated in London). The problem seemed, at first, quelled. But difficulties related to the loans advanced to the affected banks in the North resulted in a new suspension of payments by some Porto-based banks and instability continued.

Eventually, the crisis hit the *Caixa.* In August 1876 started a bank run that saw about 740 million *reis* (a value higher that the cash held by the CEMG in December 1875) withdrawn. How did *Montepio* and the *Caixa* react?

In order to understand the reaction, it is important to bear in mind the literature that deals with banking crises and, in particular, bank runs[15]. While a bank run is often portrayed as a widespread panic of depositors, it can also be seen as a rational reaction.[16] Bank runs occur when depositors suspect that their deposits are in danger, an idea that tends to spread rapidly, and can lead to mistrust in the value of bank assets. Bank runs tend to take place during economic downturns, or when similar institutions

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[14] LAINS, Pedro. *História da Caixa Geral de Depósitos 1876-1910. Política e Finanças no Liberalismo Português.* Lisboa, Imprensa de Ciências Sociais, 2002, 74

[15] GROSSMAN, Richard S. *Unsettled Account. The Evolutions of Banking in the Industrializes World Sinse 1800*, Princeton, Princeton University Press, 2010.

[16] TOURNIÉ, Vicent. *Épargne et Crises Poliliques en France. Les Mouvements de panique dans les Caisses d'épargne au XX^{e} siècle*, Paris, Económica, 2011.

are failing or when the fear of devaluation of the floating exchange rate leads to withdrawals by depositors who want to convert their into a more stable currency.

In the event of a bank run, the capitals deposited with the central bank are the safest way for a banking organization to meet its obligations because of their liquidity. Yet, this was not an option, since *Montepio* did not keep any deposits in the Banco de Portugal. The sale of securities and equity is another possibility. Typically, portfolios give higher returns than deposits in central banks, but are riskier in the event of a bank run. Its lower liquidity can prove powerless to placate the distrust of the depositors. Moreover, bank runs can coincide with the devaluation of the portfolio, especially when the bank run react to a widespread doubts about the banking system, as was the case in 1876. Yet, the nature of the mutual association of which the *Caixa* was also precluded this option. Indeed, one cannot understand the CEMG without understanding the specificities resulting from the dual nature of *Montepio*, a mutual association with a savings bank. For *Montepio* and the *Caixa*, the risks of a bank run were essentially different from those of a commercial bank. For *Montepio*, securities were the collateral of the current and future obligations of the association towards its pensioner more than simply the collateral for cash deposits. Hence, members of the *Montepio* would certainly opposed options that were seen by the as a threat to their pensions. Thus, practically unable to sell securities or equity, the only option foreseen by the Board was to borrow. *Montepio*, not the *Caixa*, negotiated no less than four loans. Two loans were from the New London Brazilian Bank (both worth 27 *million*), other from the London banker F. Youle, worth £35,000 (155 million), and, finally, one by the Government, amounting to 150 million. The last one was part of the Government choice of defending the Portuguese banking system.

At any rate, one has to bear in mind that at no time did the *Caixa chose to* close the doors. Moreover, the *Caixa* did not even resort to the debt moratorium decreed by the Government. Still, it temporarily restricted maximum daily withdrawal at 100,000 *reis* and, later, 50,000 *reis*, unless the depositor could prove some urgent moral or material need. Twelve days after the bank run has begun the limit went back to 500,000 *reis* and, eventually, all temporary restrictions were lifted (bar withdrawals over 5 millions, which had to be demanded three days in advance).

By the end of the year, the crisis was over and deposits were returning: the treasury had 761 million *reis* in cash in the 1876 balance sheet, 1360 million *reis* in 1877 and 1560 millions *reis* in 1878. This new liquidity would be useful to face another bank run in 1877, when news the sudden raise of the discount rate by the Bank of London reached Lisbon, causing a small panic. CEMG saw deposits worth 400 million being withdrawn in a few days, but they were met with the cash available. In 1880, the value of the deposits reached 2674 million *reis*.[17]

Paradoxically, the crisis of 1876 increased the role of *Caixa* within the parent association. As the *Caixa* had overcome the difficulties and started a period of sustained growth in the deposits, members realized that management could take some risk. Indeed, whereas some banks had gone bankrupt, the savings bank managed by *Montepio* honored its obligations. As mentioned, between 1877 and 1880 deposits grew from 1363 to 2674 million, respectively, an increase of more than 50%. Total assets grew from 2,485 to 3,999 million in the same period, whilst the number of members increased from 2,144 to 2,422.

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[17] NUNES, Ana Bela, Carlos Bastien e, Nuno Valério. *Caixa Económica Montepio Geral. 150 Anos de História 1844-1994*, Lisboa, Montepio Geral, 142, 114 e 171.

Survival of banking crises is one of the factors which increase the credibility and confidence of a banking organization for the depositors. Although the 1976 crisis did not lead to any institutional change in the CEMG, let alone a more active role as a bank, the very survival of the parent association laid the foundations for the *Caixa* to emerge as one of most important banking organizations in Portugal.

3. Too big to fail?

Between 1876 and the late 1880s the Portuguese banking system knew another positive cycle. Regarding bank deposits, net of cash reserves, was the rise to some 30,000 million *reis*, twice the amount at the height of the speculative period which preceded the crisis of 1876. Likewise, loans ascended to some 70,000 million *reis*, 50 percent more than the peak reached before 1876.[18]

The 1890s, however, started with a fresh crisis, when the Portuguese state defaulted in 1891. While the crisis of 1876 remained essentially a banking crisis, the crisis that affected Portugal in the 1890-1 was far more complex and comprised economic, financial, political and social dimensions. Among the factors for the difficulties felt by the Portuguese state stood, again, a dip in the remittances from Brazil (this time because of the abolition of the slavery in 1888 and the republican coup of 1889) and an English ultimatum forcing Portugal to withdraw his troops from English-held Nyasaland. These problems had very serious consequences for the Portuguese banking system. In addition to several bank failures, there was a drastic reduction in the numbers of loans conceded

[18] VALÉRIO, Nuno (coord.). *História do Sistema Bancário Português*, vol. 1, *da Formação do Primeiro Banco Português à Assunção pelo Banco de Portugal das Funções de Banco Central (1822-1931)*, Lisboa, Banco de Portugal, 2006, 132.

and deposits made. By 1895, all deposits amounted to some 15,000 million *reis*, i.e., less than half of the values reached before the crisis. In monetary terms Portugal left the gold standard system and adopt a conventional monetary system. The quantity of money in circulation also receded strongly, aggravating the crisis.

By 1890, CEMG was affected by dissent within the members of the *Montepio*. Even before the outbreak of the crisis in the global picture of the Portuguese banking system, CEMG had suffered yet another bank run. Additionally, several conflicts between members of the association and disagreement over the choice of the employees led the resignation of the directors in 1890**.** This internal debate of 1890 came at a bad time, aggravating the looming economic problems.

As Portugal abode by the English demands in August 1890, the country descended into civil unrest. In 24 September, the CMEG saw once again a bank run caused by the public insecurity. In the same night, however, a rumor spread in a clandestine leaflet claimed that *Montepio* would lend 5,000 million *reis* to the struggling Government. As a result, the bank run resumed next morning and the *Montepio* lost one-tenth of the total value of deposits. Within days, more than 800 million *reis* were withdrawn. A single day saw 200 million *reis* leave the counter. and only one day, came to rise more than 200 short stories. It should be noted that the balance of deposits in September 1, 1890 was 9,824 short stories. At the end of 1890 Savings deposits in 8252 were limited to stories, or had a negative balance against the beginning of 1072 stories. To solve the problem the Board has used the capital in cash, which sought to increase by decreasing the credit. Discount is also some letters floating debt of the Portuguese with the Bank of Portugal. After some time the queues dispersed and the *Caixa* saw its deposits somewhat diminished but its credibility reinforced.

Troubles continued in the following year, aggravated by a failed republican coup in Porto on 31 January, the constant decay of the remittances from Brazil, the difficulties of the Baring Brothers. The failure of the Portuguese Government to secure a loan in Paris originated a widespread bank run that led to the bankruptcy of several financial institutions in Portugal at that time. The *Caixa,* however, remained unscathed as the low demands were easily met with the available liquidity in cash. This liquidity was partly intentional but also an unintended consequence of the difficulty of the *CMEG* in converting 188 million *reis* into capital.

The crisis was thus successfully dealt with. Still, *Montepio* decided to overhaul the *Caixa* and adopt a professional manager who had to answer before the Board and the General Assembly. Moreover, there was a strong investment in expert staff and in modernizing its hierarchy. These trends were reinforced in a reform of the statutes that ensued in 1893. The powers of the General Assembly were further limited. Moreover, a new fund, the Reserve Fund, was created to bear any losses incurred by the operations of the Savings Bank and, should the need arise, to reinforce the Available Fund (which had to pay the pensions) and to compensate any losses of the Permanent Fund.

From 1891 to the next major crisis, World War I, *Montepio* doubled the number of members, which went from four to eight thousand until the next major crisis, World War I. In 1895, the *Caixa* also had to come to terms with a yet another minor bank run to the deposits fueled by rumors of borrowing to the Government.

The crisis of 18901-1 showed the financial virtues of mutualism in moments of severe economic fluctuations. Unlike commercial banks, the *Caixa* benefitted from a steady stream of members' payments and entry fees that did not slow down in times of crises. These funds, moreover, were deposited for the long run. For this institution, liquidity was not the main problem, as the successive limits on deposits and the decrease in interest make clear. Bank runs, however viral, were met with relative ease. In a period of economic downturn, however, there remained a very different problem: where to invest these funds?

Conclusion

The present work leads us to leave two concluding remarks. First, the link between an organization with the sole purpose of social responsibility and an organization that is guided by the maximization of capital is mutually strengthening.

Under the umbrella and the social credibility of a mutual association, a savings bank can take more risks but its 'natural' attraction for speculation and risk-taking is checked by the prudence and transparency demanded by the members of the association who 'naturally' look to the long run. In times of economic downturns, the prudence and social responsibility instilled by the mutual association offers guidance.

On the other hand, the risk-taking of the bank permanently challenges the institution and cause it to adopt more efficient structures and regulations. This leads us to a second concluding remark: crises are great opportunities for institutional change; they compel organizations to adopt changes that allow for lower transaction costs - as suggested by authors like Oliver Williamson and Douglass North – and to gain efficient learning' from the experience, as *Montepio* did after the of 1876 and 1891. Hopefully, the result of our research also brings new insights into the problems of savings banks in the Portuguese context, namely to ask for the reasons why few savings banks emerged in Portugal. Was it the result of the perpetuation of the institutional framework of the Ancien Regime, in which financial activity was combined with charity, like the misericórdias? Did some economic and geographic circumstances attenuated the incentives for creating those institutions? Were the nascent nineteenth-century savings banks too small and/or too exposed to risk? Indeed, the crises of 1876 and 1891 wiped many of these... Financial crises appear as unique occasions for a savings bank attached to mutual associations. Indeed, as the concrete case studied shows, this association is mutually enhancing. Saving banks may prosper in difficult times under the umbrella of a non-profit organization. The present financial woes are a great incentive for these reflections

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