Spain: bank takeover raises fears of job losses

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5 August 2004

Banco Santander Central Hispano (BSCH), Spain's largest bank, has been forced publicly to deny rumours that it aims to cut upwards of 3,000 jobs after its proposed takeover of Britain's Abbey National bank.

A spokesman for BSCH said, "There was no such plan." However, the German financial daily newspaper *Handelsblat* confirmed such losses were inevitable. Three thousand jobs would have to be cut, the newspaper reported, as BSCH needed to draw up plans to save £300 million over three years. *Handelsblat* said the job cuts would include administration and IT staff.

BSCH plans to merge both IT and administration jobs. It also plans to sell off Abbey's remaining non-core assets. Abbey National lost nearly £1.6 billion in 2002 and carried out a massive job-cutting exercise. As the UK's second leading mortgage lender, Abbey National has a market value of about £7 billion ($12.9 billion).

If BSCH's past is anything to go by, Abbey National workers face savage cuts in their jobs and living standards. When BSCH took control of Banespa Bank in Brazil recently, one of its first moves was to get rid of 8,000 employees.

BSCH chief executive, Alfredo Saenz, has called for the dismantling of welfare state in Spain in order for its economy to remain competitive. He was quoted by newspapers as insisting: "We must improve our labour and financial markets structurally, and accommodate our tax levels to those countries that are going to compete with us, and we must accommodate our regulatory practice to much more liberal concepts, or really we are going to have a problem.

"Welfare—I reiterate—it is necessary to disassemble it, and we do not have too much time to do it. It is a message that for me is completely clear, but I assure you that there is a tremendous preoccupation in Europe on this question. The question is how long we have to do it, and it is not too much time—not more than 15 years."

The £8.5 billion takeover of Abbey, yet to be agreed by Abbey shareholders, would be Europe's largest cross-border retail bank deal, making BSCH Europe's fourth largest bank and the eighth largest bank in the world.

The takeover deal was negotiated by BSCH head Emilio Botin. The Botin family is the richest in Spain and is often seen mixing with royalty. BSCH was formed after a somewhat chaotic merger between Santander and Banco Central Hispano in 1999. Botin carried out a power struggle to have Santander dominate the boardroom.

However, Botin faces charges over allegations that he made payoffs to ousted executives—specifically, that he handed out 164 million euros in retirement payments to two former executives. With a criminal trial pending, a Madrid court forced him to post a bond of 165 million euros to cover potential liability to the bank.

Botin defended the payments as part of the completion of the 12 billion euro merger in 1999. "In compensating them, the board did what it had to do," Botin said, referring to the pension and bonus payments made to former co-chairman Jose Maria Amusategui and ex-chief executive Angel Corcostegui when the two resigned following the takeover.

BSCH has described the proposed Abbey deal as an attractive platform. The Madrid-based newspaper *Expansion* concurred, stating, "The Santander group is getting the most stable economy in Europe and the one with the biggest, most competitive and profitable banking market in Europe, thanks to the absence of regulatory barriers and its flexibility in terms of tax and working practices."

The article failed to mention that these favourable conditions have been at the expense of hundreds of thousands of workers who have seen their jobs and working conditions slashed.

The deal with Abbey would give BSCH an 11 percent slice of the UK banking market in one swoop. It would also give Santander a foothold in the UK retail banking market. The UK market has some of the highest returns, running at 20 percent in Europe, and Abbey would bring with it some 18 million customers.

Abbey's absorption by BSCH is part of a global consolidation in banking, which has been characterised by the emergence of "super banks." It also marks an escalation in the development of trans-European mergers.

While in the past BSCH has been wary of mergers and buyouts in Europe, concentrating mainly in Latin America, its declining profits from this area has forced an about-face. Of its £72 billion in assets, about 65 percent are concentrated in Spain, 27 percent are in Latin America, and the remainder is in Europe, primarily Portugal.

Botin has said that BSCH's strategy is that of "selective acquisitions," rather than attempting a "merger of equals."