Hundreds of thousands of defrauded small savers face loss of life savings in Spain

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12 April 2013

Approximately 710,000 Spanish bank customers and their families have been inappropriately sold preference shares in their banks, according to financial consumer association ADICAE (Association of Bank and Savings Bank Users). Most are ordinary savers who were persuaded to convert their life savings into this much riskier form of investment, which they were told was just as safe. This was a lie.

Preference shares are high-risk financial products, potentially generating high returns if the bank in question makes a healthy profit. These are usually sold to professional speculators who know the risk involved. Unlike normal depositors, the government does not insure holders of preference shares against losses.

The advantage to the banks is that it makes their capital balance look stronger, because customers have their savings locked up and at the same time they have no voting rights to which shareholders are usually entitled.

Between 1999 and 2004, some €18.3 billion (US$24 billion) worth of preferential shares were sold in Spain, to around 50,000 people, mainly pensioners. But with the onset of the global financial meltdown in 2008, banks embroiled in the toxic property loans market began selling a lot more of these shares as the property boom collapsed.

Around €31 billion worth of preferential shares were sold by Spain's major banks and savings banks (*cajas de ahorro*). Banking staff were instructed to pressure customers, who for the most part had no idea what these financial products were, to buy these shares. In many cases, clients were deliberately conned.

According to a report by the Consumers and Users Organization (OCU), 80 percent of those affected are older than 65. The banks deliberately targeted this age group because they were considered to "trust" banks more. They were then "recommended" the product as a good new investment due to its "high profitability" without being told that returns were not guaranteed, or that the state Deposit Guarantee Fund would not cover losses.

There are thousands of stories of the callousness with which banks imposed themselves on these small investors, including one pensioner suffering Alzheimer's disease and at least one illiterate person who signed by dipping a finger in ink.

Maria Carmen, who attended a meeting of victims of the preferential shares fraud, explained, "I speak on behalf of my mother who has 11,965 shares placed with her by force or at least through ignorance… She spoke to someone who she trusted and this person played on that, tricked her and sold her these preferred shares when my mother thought she was taking out a deposit."

Another saver told *Tengrinews*, "My bank told me it was a safe investment with a very good return of 7 percent and that I could get my money back in 2014… I didn't even know I had preferential shares. They called them financial assets".

His daughter, who is unemployed, added: "My parents are not from an educated background... My mother wanted a low-risk investment. They told them, 'You will get your money back in 2014'. But it was a verbal agreement." When problems with their bank came to light they were never told. The family only found out when the bank would not let them access their savings.

Nemecio Martin, a 70-year-old pensioner, told AFP that he invested €42,000 in preference shares, which he had planned to use to pay for his stay in a retirement home. "If I can't pay, where will I go?" he asked. "Will I wait under a bridge to die?"

Last year, the European Union propped up Spanish banks with €42 billion in rescue loans. One of the conditions imposed was that bank customers who bought preferred shares would have to take losses.

As a result, on March 22 the Popular Party government of Prime Minister Mariano Rajoy passed a decree imposing "haircuts" of up to 61 percent on preference shares and other debt in four nationalised banks: Bankia (36 percent) Banco Gallego (50 percent) and Catalunya Banc (61 percent). The haircut on NCG Banco is not yet unknown, but estimates are around 43 percent.

Other banks also have large quantities of preference shares. Banca Civica, bought by La Caixa last year, has €9 billion worth (compared to Bankia's €3.9 billion). The situation is particularly bad for customers of Banco CAM, an Alicante-based savings bank, which was bailed out in 2011 and re-privatised for one euro to Spain's Banco Sabadell. It was then suddenly discovered that 70,000 customers had been sold a package that included CAM preference shares. Banco Sabadell has now offered to exchange the CAM savings for ordinary shares in the bank, but at a conversion rate that means savers are looking at an immediate loss of almost 40 percent.

The decree also poured salt into the wounds of the defrauded small savers, by making the banks contribute just €2 billion of the €30 billion total to the Deposit Guarantee Fund. Banks must make 40 percent of their contribution to the fund no later than 20 days from the end of this year.

The second largest bank in Spain, BBVA, has already said it will not comply.

Pensioners and other victims of the preference shares fraud, angry at losing their life savings, have been protesting almost daily. In Galicia hundreds of protesters have been invading town hall meetings across the region in Vigo, Mos, Redondela, Nigrán, Oia, As Neves and O Porriño, blaming both the ruling Popular Party government and the opposition Socialist Workers Party's inaction. Three weeks ago police in the Galician town of Ponteareas had to help the Popular Party mayor and councillors escape from the town hall via a back window after demonstrators blocked access to the building.

The brutal way in which the Spanish government is treating small savers again demonstrates that the ruling elite is determined to make working people and the middle classes pay for a crisis that is not of their making.

In Spain and other countries, including most recently Cyprus, the bank bailouts have been tied to structural reforms that include a hike in the retirement age, the slashing of public sector jobs and services and extensive privatisations.

In Cyprus, due to angry protests in the streets, parliament voted down a proposal to levy a charge against those bank depositors with less than €100,000. Instead the required money to bail out the banks and finance institutions is to be seized through a gamut of mass austerity measures, imposed by the troika with no democratic mandate.