

## Banking in Europe: Banco Santander's Experiences, Strategies and Expectations

Prime Ministers, Chancellors and Ministers of Economy from twelve European countries met in Madrid on 12 June 1985, at the city's Royal Palace, to make official Spain's adhesion to the still then so-called Economic European Union. That solemn meeting was much more than the happy conclusion to long and difficult negotiations. That afternoon, most Spaniards understood that this was mostly an event of the future: a whole generation of Spaniards was given the opportunity to face the challenge of modernising Spanish society and economy from within Europe and under the same rules and institutions as our new colleagues.

### Strengthening Europe

Most significant was the fact that Spaniards accepted the collective responsibility of not disappointing those who had believed in our country's potential for change and improvement, and the strategic value that the incorporation of Spain to the EU project meant for the whole of Europe. We did right. We didn't disappoint. The last 25 years of Spain's history have been some of the best of our entire history and, as a country, it has contributed uninterruptedly and loyally to the strengthening of the new Europe's economic, political and cultural space.

Martin Kohlhaussen, our respected colleague, used the word "Wahlverwandtschaften" years ago to designate the "elective affinities" underlying the banks which comprised the Europartners group. This expression perfectly describes the spirit that drove many Spanish entrepreneurs during the last two decades. For many Spanish companies, the "elective affinity" was always Europe, and this continental option has inevitably conditioned the strategies developed during the past years.

Banco Santander's experience is, to a point, paradigmatic.

### Clear international vocation

When Spain joined the European Union, the bank was ranked sixth amongst Spanish Banks, its market capitalisation scarcely reached 2.4 billion euros and, like most Spanish companies, it had poor international exposure. For commercial purposes, Santander was present in the main Euro-

pean markets for Spanish exports. However, it was present in the banking systems of some Latin American countries, particularly Puerto Rico and Chile, more due to the emigration of Spanish people than to history. In any case, the bank always had clear international vocation, as the alliance with the Bank of America in 1965 – to create Bankinter – reveals.

In spite of this, in 1986 Santander's growth and internationalisation process was only just beginning.

The first great step in the bank's internationalisation process was the "europisation" of Santander through the unique alliance with the Royal Bank of Scotland in 1988. Apart from distributing shares, relying on important strategic projects and discovering that both institutions had corporate cultures that shared ambitions and essential definitions, for the next 16 years the alliance with the Royal Bank of Scotland contributed determinedly to our gathering of in situ experience and knowledge regarding the functioning of the international financial system. As a result of this observation and learning process at one of the best watchtowers within the international financial system, Santander concluded that there were extraordinary difficulties within European banking systems to carry out "cross-border mergers amongst equals" that would create added value for shareholders and customers; the reason why any institution that pursued a sustained internationalisation process was forced to explore alternative approaches.

### Control over acquisitions

This early revelation determined that Banco Santander's internationalisation should give priority to a policy of institution and

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*Lange vor der Einführung des Euro als Rechenwährung feilte die spanische Santander-Gruppe an ihrer Internationalisierung. So wurde im Jahr 1965 zusammen mit der Bank of America das (mittlerweile unabhängige) Joint Venture Bankinter ins Leben gerufen. Aber erst die im Entstehen begriffene Europäische Union gab den Startschuss für echtes Wachstum: Im Jahr 1988 begann eine 16 Jahre lang haltende Zusammenarbeit mit der Royal Bank of Scotland – woraus die Bank aus Sicht des Autors wertvolle Erfahrungen schöpfte. Nur wenige Tage nach dem Start der Europäischen Wirtschafts- und Währungsunion fand schließlich zusammen mit dem Banco Central Hispano die erste nationale Fusion des jungen Euroraums zum größten Institut Spaniens statt. Und mit der teilweisen Übernahme der niederländischen ABN Amro war die Bank im Zuge ihrer grenzüberschreitenden Expansion zuletzt in den Schlagzeilen. Als Schlüssel zu erfolgreichem Wachstum sieht der Santander-Chairman neben fortwährender Innovation und der Suche nach neuen (Akquisitions-)Möglichkeiten insbesondere die volle Kontrolle über die übernommenen Einheiten an. (Red.)*

business acquisitions rather than to other possible strategies.

During Santander's international expansion process, this road led to the bank usually becoming the single shareholder with control over the companies it acquired. A strategic option that contributed to it being able to independently define the features of the "Santander management model": the permanent search for innovation regarding products and services, commercial aggressiveness, commitment with competition, excellence when controlling all types of risk, equity and balance sheet robustness and investment in the sector's best human and professional teams.

This corporate culture is nowadays completely accepted by all management and employees who work at the bank as an essential part of the company's DNA. This knowledge drives its constant updating and enhancement through the contributions and experiences of our local teams.

### Gaining weight

Chronologically, the accomplishment of this internationalisation policy was preceded by the acknowledgement that it was crucial to gain weight within the Spanish banking market. This ambition, on the one hand, required being permanently prepared to make the most of any opportunity that might occur as soon as the greatest competitor shook the business environment, and on the other, having a powerful management model aligned with the bank's call for leadership.

The Superaccount launch in September 1989, the diversification of banking businesses, the strong organic growth experienced in the following five years and the acquisition of Banesto in 1994, all enabled

Santander to become number one in the country's banking ranking in 1999. And in that same year, hardly a fortnight after the launch of the European Economic and Monetary Union, Banco Santander announced it was experiencing the first merger of the euro area by merging with BCH to create the Spanish market's leader banking group.

### A sole European financial market

Europe had once again sparked our call for leadership. But at that time it was also clear that this new Santander Group offered credibility to the idea of a sole European financial market in which institutions were created, operational and capable of competing on a global scale. Europe allowed us to be stronger and a national merger in the continent's relatively split financial sector made Europe stronger in turn.

After consolidating the merger the bank made the most of its new dimension and acquired capacities to re-launch its international expansion process, setting the foundations on three pillars: creating the leading franchise of financial services in Latin America; the acquisition of Abbey in the United Kingdom and the construction of the European consumer credit franchise. The last step, for now, in the diversification and international expansion process at Santander is the also quite innovative acquisition of ABN Amro, as part of the consortium lead by the Royal Bank of Scotland and of which Fortis was also a part of.

The results of this international strategy are very important, both from the qualitative and quantitative points of view.

In slightly over 20 years, while Spain increased threefold its per capita income,

Banco Santander has taken its market capitalisation to 92.5 billion euros, turning it into the first banking Group of the euro area and the seventh worldwide, behind three Western banks and three Chinese banks. In 2007 it has presented a net profit of 9,060 million euros. In addition to these forceful achievements, the Group is now present in 64 countries, it assists 65 million customers and has developed the most extensive banking network of the international financial system, with the exception of China: 11,178 branches (over 13 thousand including Banco Real), of which 4,833 are in Spain, 4,498 in Latin America and the rest in the United Kingdom – 704 – and other countries.

### Balancing market exposure

Santander is today one of the largest retail banks in the world. A bank that, in a relatively short period of time, has achieved a portfolio of significant and balanced international offices in developed countries – 68% of profits – and emerging countries, plus a business portfolio that levels mature activities and those with high growth potential. It is like this – on the basis of a retail banking model, making the most of the synergies and best practices developments in the different countries where the bank is present – that global businesses, such as wholesale, insurance, fund management and so on, have been developed.

Our corporate culture, particularly everything in relation to all types of risk, and the combination of countries and businesses which guarantee sustained high profitability and growth rates throughout the cycle, have only recently verified their capacity to add value for the shareholder. Indeed, in the past six years Santander has increased its value in stock markets by 2.5, avoiding at the same time going into the toxic products and businesses behind the current banking crisis suffered by the global economy.

Santander has achieved a great deal during these years. Its relative position nowadays is excellent. Its ambitions are still intact. As is the commitment to the 2.5 million shareholders, its 65 million customers, the 165 thousand professionals who work in Santander and the 40 countries where we are already operational.



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