



## The upside of a down market

**How did Spain's biggest bank become a white knight in the UK and emerge as the fourth most profitable bank worldwide? António Horta-Osorio, CEO of Banco Santander's UK operations discusses strategy and future plans.**

If there's one good thing about an economic crisis, it's the bargains resulting from the fall-out. Good, that is, if you're in a position to buy. And that was exactly the position in which Banco Santander found itself.

When the credit crisis hit the UK in 2007, Spain's largest bank had the will and the means to take advantage of some amazing bargains. Not only did Banco Santander weather the crisis, it emerged as a stronger global player, particularly in the UK.

Already a presence in Britain since 2004, when it spent 12 billion euros to acquire Abbey National, a former building society-turned bank, Banco Santander was eager to expand its UK assets.



“In 2007, when the crisis came, we started to see that the strategy of the UK banks - both in terms of funding and in terms of capital - had been aggressive,” explains António Horta-Osorio (MBA'91J), Santander's UK-based chief executive. “And as you know, the first problems in this crisis came in the UK, like the case of Northern Rock.” (The British building society-turned-bank was the first English bank since 1866 to have a bank run during the credit crisis in 2007).

That scenario set the stage for Santander to start buying. “We had very strong quality of assets (and

we were already a very efficient bank,” said Horta-Osorio, formerly CEO of Banco Santander in both Portugal and Brazil, adding: “We were ready to be able to do an acquisition.”

The Spanish financial institution started with Alliance & Leicester, which had become a bank in 1997 after the merger of two building societies of the same names. With a hefty price tag of 1.3 billion pounds, its financial misfortunes notwithstanding, Horta-Osorio was pleased with the purchase. “Alliance & Leicester was quite a good bank, a prudent bank, but had bought lots of securities (which resulted in problems with) the quality of the write-offs in securities,” he said, adding that the UK-based bank also had problems related to funding. On the heels of that transaction came another golden opportunity for Banco Santander to expand its British portfolio further when the bank, Bradford and Bingley, was nationalised. Santander won the ensuing auction. “We only bought the deposits, the branches and the customers, so we did a transaction without any risk,” said Horta-Osorio. He added: “That significantly improved our funding profile because we only received deposits which were the scarcest element at the time.”

All in all, it was a major coup for Banco Santander, today ranked second in the UK in terms of retail banking. It enabled the bank to reach its target of 10 per cent of the market, its standard benchmark in countries where it operates as a full-fledged commercial institution, as was the case in the UK. “The three together made us go from 6 per cent with Abbey alone, to 10 per cent of branches, 10 per cent of savings and, as a whole, 10 per cent of the retail market in the UK in October 2008, at the peak of the crisis,” recounted a delighted Horta-Osorio.

But Santander didn’t stop there. In September, the bank bought 320 branches from the Royal Bank of Scotland, enabling it to boost significantly its presence in the SME market (small and medium enterprises). “We now have 1,600 branches in the UK, 12 per cent of the retail market, from 10 to 12,” said Horta-Osorio, adding: “More importantly, strategically we went from three per cent --we had only three per cent in SMEs - to eight per cent of the market.”

Even though Banco Santander was thrilled with its new-found foothold in the UK, the bank was sensitive to the downside of muscling in on foreign territory, particularly in the UK. Horta-Osorio, a native of Portugal, admitted that doubts needed to be addressed. “That required a lot of communication,” he said, “I’ve made visits every month since I arrived to the bank, to the branches, with half of my executive committee team, to spread culture and support them.”

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That strategy seems to be working. As the bank has become more recognised in the UK, Horta-Osorio told INSEAD Knowledge that it’s for all the right reasons. “During the crisis (Banco Santander) was perceived as a safe haven for customers’ deposits, and we massively increased our share of deposits during the second half of ‘08 and the first half of ‘09.”

Horta-Osorio says advertising helped boost its awareness rating to 90 per cent, a big leap from 20 per cent following the purchase of Abbey National in 2004. But Horta-Osorio also admits that being a sponsor of the British Grand Prix at Silverstone and of world champion British driver, Lewis Hamilton, didn’t hurt, either. “It’s amazing because you can see the peaks of the research in July, which is when the Silverstone Grand Prix takes place,” he says.

Along with the UK, Banco Santander is currently present in nine major countries. “We are now the third-largest bank in Brazil; we have a lead position in southern Europe,” says Horta-Osorio. Apart from its recent acquisitions, Horta-Osorio says the bank has been growing organically at a rate of more than 15 per cent per year.

Today, the fourth-largest bank in the world by profits, Banco Santander has set its sites on the US market. However, it’s not enough to be simply present in a country. “We don’t want to be an average player in many markets”, said Horta-Osorio. “We want to be a leading player in the main markets where we are.”

This article was written by Cindy Babski based on an interview for INSEAD Knowledge.

*In early November, Lloyds Banking Group announced that António Horta-Osorio will become its CEO in March 2011.*

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