Challenges in restructuring of savings banks

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Spain’s savings banks have a particular legal status that differentiates them from the country’s remaining financial institutions. The savings banks are private, non-profit companies which, despite competing on the market, are unable to share out dividends among their shareholders and devote part of their profits to social work. Because of this social character, the savings banks are regulated by their own law: the Law of Savings Bank Governing Bodies 31/1985 of 2 August 1985 (LORCA). The objectives of this law were to democratising the governing bodies and to establish a regulation coherent with the territorial organisation of the state. The law established a set of basic principles from which different regional regulations might be developed. Among these principles are the criteria for establishing the saving banks governing bodies: that is, the municipal corporations (requiring up to 50% of the votes), the clients (between 25% and 50% of the votes), the staff (between 5% and 15% of the votes) and the founding patrons.

The economic crisis has caused severe problems for the solvency of Spain’s saving banks. Several mergers are being
negotiated, but difficulties are emerging in the restructuring process related to the wide influence of the regional governments in the savings bank government bodies. Moreover, the trade unions are fearful of closures and job losses arising due to the mergers. A reform of the law concerning savings banks is currently under debate.

**Legal status of savings banks**

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The main characteristic of the law is the excessive power afforded to the political sphere in the saving banks governing bodies. While LORCA allows the municipal corporations to be awarded half of the votes, several regional savings bank laws transfer power from the municipal corporations to the regional governments. This means that the regional
governments exercise a decisive power in the renewal of the governing bodies and the establishment of the savings banks strategy. In the present context of the global financial crisis, the criticism regarding the politicisation of the savings banks has moved to the centre of the political debate.

**Government response to economic crisis**

The economic crisis has severely hit the savings banks, partly due to their strong involvement in issuing loans to the construction sector, which has been among the worst affected economic sectors by the crisis in Spain. The government responded by approving Royal Decree Law 9/2009 of 26 July 2009, which constituted a Bank Organised Restructuring Fund (FROB). A sum of €9 billion has been allocated to FROB to reinforce the power of the Bank of Spain (*Banco de España*) as a supervisor of restructuring processes in the financial services sector.

However, FROB is facing difficulties in restructuring the savings banks, due to the effort made by the regional governments to slow down or prevent mergers. Regional governments fear that the mergers will reduce their influence in the saving banks and, as a result, diminish support for the financing of public and private regional projects. For this reason, the Bank of Spain has often opted for an intermediate mechanism to enable virtual mergers under the form of an Institutional System of Protection (SIP), which allows the headquarters, the administration and the trademark to be maintained in exchange for lower cost savings.

**Overview of current banking situation**
At the beginning of 2009, there were a total 45 savings banks in Spain. The current situation regarding saving banks in the different autonomous communities of Spain is broadly as follows. The banking situation in the autonomous community of Andalusia in southern Spain has developed the most, following an agreement on the merger between the Unicaja and Caja de Jaén banks, which was expected for December 2009. The merger of the latter two savings banks will precede the creation of Unicajarsur, as it will later merge with CajaSur. For its part, the autonomous community of Catalonia in northeastern Spain will lead three mergers in the coming months, putting an end to the most atomised savings bank scenario in the country.

Among the communities where the mergers have been delayed is the Basque Country in northern Spain, where three savings banks were at the centre of rumours about possible mergers. These included, in particular, a possible union between the Bank of Bilbao (Bilbao Bizkaia Kutxa, BBK), the leading Spanish savings bank in terms of solvency, and Caja Vital Kuxta, which decided against the move in the end. In Galicia in northwestern Spain, although the autonomic government seems to be currently in favour of the merger between the Caixanova and Caixa Galicia (the largest entity) banks, there have been no formal agreements thus far.

In Valencia in eastern Spain, the government is also in favour of the merger between the two main savings banks, Bancaja and Caja Mediterráneo (CAM); however, the investment which both savings banks made in the same real estate sector has raised doubts over the risks that may arise as a result of the merger. In the capital city Madrid, Caja Madrid,
pending the renewal of the General Assembly, expects to lead a merger in the coming months. Finally, the Castilla León autonomous community in northwestern Spain has witnessed the paralysing of a reportedly imminent merger between the banks Caja España and Caja Burgos.

Furthermore, the intervention in Caja Castilla la Mancha (CCM) by the Bank of Spain on 29 March 2009 is worth mentioning: the move was concluded in October, with the institution being sold off to the savings bank Caja Astur in the Asturias Principality on the north coast of Spain.

**Position of main actors**

The Bank of Spain has confirmed its approval of a reform of LORCA in order to reduce the political power of the regional governments. The Popular Party (Partido Popular, PP) has welcomed this proposal, despite the opposition of some of the PP regional governments. Meanwhile, the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorro, CECA) claims a reduction in the weight of the political parties in governing bodies to below 25%.

On the opposite side, the trade unions are fearful of the closure of offices and the loss of employment that may result from the mergers. Therefore, the trade unions have been organising a series of protests in the regions where the merger processes are most advanced. Demonstrations were held in November 2009 against the merger of saving banks in Catalonia, led by the Federation of Financial and Administrative Services of the Trade Union Confederation of Workers’ Commissions (Confederación Sindical de Comisiones Obreras, CC.OO). According to the federation, the merger of the banks Caixa Cataluña, Caixa Tarragona and
Caixa Manresa will entail the closure of 500 offices and the loss of 1,800 jobs. In Andalusia, the Aspramonte union (Asociación Profesional Sindical Aspramonte), which represents about 70% of workers in the sector, is opposing the merger between Unicaja, Caja Jaén and Caja Sur if no labour agreement is negotiated beforehand.

**Commentary**

LORCA has led to a situation where the saving banks are less dependent on the regional governments. These governments, defending their regional interests, are reluctant to concede to the dismantling of institutions with broad power in providing credit for local business and financing regional projects. On 2 December 2009, the country’s Prime Minister, José Luis Rodríguez Zapatero, spoke for the first time in parliament about the possibility of reforming LORCA in the first quarter of 2010, in order to ‘depoliticise the savings banks’ sector. The Bank of Spain and the main opposition PP party have already adopted a similar position. However, any reform must find a way to ensure that the social character of the savings banks is safeguarded and assure the representation of the different interests of the regions. In the meantime, the banks’ restructuring has to respect the workers’ rights of information and consultation, negotiating social agreements and the prevention of substantial job losses.

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