Early Warning System

MIGA-14887

Santander Central Bank Mandatory Reserves Coverage

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Quick Facts

Countries	Chile
Financial Institutions	Multilateral Investment Guarantee Agency (MIGA)
Status	Proposed
Bank Risk Rating	U
Borrower	Banco Santander,S.A.
Sectors	Finance
Investment Type(s)	Guarantee
Investment Amount (USD)	$ 700.00 million

Project Description

PROJECT DESCRIPTION

This summary covers equity investments and shareholder loans by Banco Santander S.A. (Santander) in its subsidiary in Chile, Banco Santander-Chile (Santander Chile). The investor has applied for MIGA guarantees of up to US$700 million in mandatory reserves cover, for a period of up to 7 years. The guarantees are expected to be issued in MIGA's fiscal year 2021.

Spain-based Banco Santander is one of the largest global financial institutions in the world in terms of market capitalization with retail and commercial operations in countries across Europe, Latin America, and North America. Its subsidiary banks abroad are required to maintain reserves at the central banks in their respective jurisdictions, based on the volume of customer deposits that these subsidiaries have. Mandatory reserves contribute to Santander's overall risk-weighted assets (RWA) at the consolidated level, resulting in less headroom for other assets at a given level of capital.

ENVIRONMENTAL CATEGORIZATION

This project is categorized as FI-1 underMIGA's Policy on Environmental and Social Sustainability (2013). Banco Santander is a universal bank with subsidiaries across multiple countries, including Chile. Banco Santander-Chile provides financial products and services to retail and corporate clients in Chile. The MIGA guarantee will provide coverage for Santander's equity investment in Santander Chile and as such, the MIGA project will support the bank's general lending activities, with a focus on SMEs and climate finance.

The main environmental and social (E&S) risks of this project relate to Santander Chile's ability to identify, assess, and manage the E&S risks and impacts associated with its lending activities and the management of labor matters at the bank. MIGA analyzed Santander Chile's portfolio for types of transactions, tenor, size, industry sectors, and exposure to MIGA's Exclusion List. MIGA also analyzed Santander Chile's E&S risk management procedures in line with the requirements of Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts (PS1), and the bank's labor practices in line with the requirements of Performance Standard 2: Labor and Working Conditions (PS2). The applicable E&S requirements for this project will be: (i) MIGA Exclusion List; (ii) applicable E&S laws and regulations in Chile; and (iii) MIGA Performance Standards.

As of December 2020, loans to individuals represented 56% of the bank's portfolio, with SMEs, middle-market and global corporates representing 14%, 24% and 5% respectively. The main sectors financed include commerce, services, manufacturing, agriculture and construction.These sectors are mostly medium to high-risk sectors. Santander Chile's corporate/project finance portfolio includes significant exposure to potentially high-risk sectors such as mining and electricity generation. Santander Chile has limited exposures to activities on the MIGA Exclusion List. The bank's overall portfolio is considered to have potentially significant E&S risks and impacts; the project has thus been categorized as FI-1.

Santander Group is an Equator Principles financial institution and is also a signatory to other global sustainable/responsible finance initiatives. As a member of the Santander Group, Santander Chile aligns its E&S risk management procedures withSantander Group's Environmental, Social and Climate Risk Management Policy. Santander Chile's E&S risk management procedures are focused on Equator Principles transactions, and transactions in sensitive sectors - mining and metallurgy, energy, defense, and soft commodities. Santander Chile's procedures ensure that these transactions are assessed for E&S risks and impacts, and compliance with national E&S laws. The Equator Principles transactions are assessed in line with the Performance Standards and where required, E&S action plans are developed to address identified gaps. In addition, Santander Chile monitors the E&S performance of its clients. Although Santander Chile has no formal E&S officer, there are officers who oversee the E&S risk management process, and E&S risk management training has been provided to the bank's officers on the existing procedures. Santander Chile will be required,within an agreed time frame,to expand the scope of the E&S risk management procedures to include all lending activities (excluding retail lending) and incorporate MIGA's E&S requirements

Early Warning System Project Analysis

- Se trata de un préstamo para hacer intermediación financiera, esto es aportar capital para que, a su vez, el banco pueda otorgar créditos a terceros, supuestamente con foco en PYME’s y financiamiento climático.

- El lenguaje financiero es bien técnico, y por ende hay muchos detalles de la operación que son difíciles de interpretar.

- El monto de la operación (US$ 700 millones) es enorme para el propósito indicado:, no parece tan creíble que los créditos se destinen a pequeñas y medianas empresas, sino más bien a grandes empresas y clientes corporativos. Como dice la propia reseña, el banco financia actividades de minería y energía. Bajo el rótulo de “financiamiento climático” se suelen esconder grandes proyectos de ERNC que no necesariamente son muy sustentables.

- MIGA también indica que el banco tiene ciertas falencias en materias de evaluación y gestión de riesgos e impactos ambientales y sociales de los prestamistas. Hay que tener presente que para operaciones de intermediación financiera, se exige al banco respectivo que evalué ambiental y socialmente a las entidades que solicitan los créditos, y sus respectivo proyectos. Esa gestión, el Banco Santander no la desarrolla a la altura de los estándares del Grupo Banco Mundial, por ejemplo, no tiene un ejecutivo responsable de E&S (Environment&Social).

Investment Description

- Multilateral Investment Guarantee Agency (MIGA)

Financial Intermediary

Financial Intermediary: A commercial bank or financial institution that receives funds from a development bank. A financial intermediary then lends these funds to their clients (private actors) in the form of loans, bonds, guarantees and equity shares. Financial intermediaries include insurance, pension and equity funds. The direct financial relationship is between the development bank and the financial intermediary.

- Banco Santander SA (Financial Intermediary)

Contact Information

ACCESS TO INFORMATION

You can submit a request for information disclosure at: https://www.miga.org/contact/access_to_information

You can also request general information about MIGA and for information on guarantees by emailing: migainquiry@worldbank.org

ACCOUNTABILITY MECHANISM OF IFC/MIGA

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org

Campaign Documents

- Banktrack: Banco Santander
- Business and Human Rights Resource Center: Santander