IESE Business School
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Executive Education

Banking

Industry Trends - 2015

THE BANKING INDUSTRY'S ROLE IN RECOVERY:
FOUR PRIORITY OBJECTIVES

Industry Meetings

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INTRODUCTION

Many questions to be answered – that is how we can sum up the current state of the banking industry, which has undergone a complex restructuring and consolidation phase and is facing multiple questions and challenges, some of which may result in significant changes to its model.

The banking industry's first major challenge is perhaps the most complex: to restore the public's trust and belief in the system, which was so damaged by the global crisis of 2007. The question is how this is done: With more regulation? With a more ethical approach? With more transparency? Is the banking industry able to contribute meaningfully to economic recovery and the necessary restoration of trust?

The banking industry's role as an engine of the economy, as a system of savings and funding for individuals and companies, has been weakened in recent years. However, its main business model is still to provide credit and grant loans. The banks would like to restore their lending operations, as this is their raison d'être, but under different terms: borrowers must be solvent and operations have to be profitable.

Moreover, the crisis has brought with it a tightening of regulations and supervisory mechanisms applicable to the banking industry, given the poor practices of some institutions, the gaps in monitoring mechanisms and other areas where the industry has underperformed. In this context, the banking union is understood as a fundamental part of the process of monetary union started decades ago and which has now been completed successfully, as well as the strengthening of the international legal framework envisaged in the Basel III accords.

Not forgetting that banking is one of the sectors where technological disruption has greater significance. So-called "online banking" does much more than provide new channels and technology platforms. Above all, it is a new way of interacting with customers, a new challenge and an ecosystem that changes with the entry of new players that process payments and provide loans. What are the banking industry's possible strategies? What new business models can it follow in the digital age? Are Facebook, Alibaba, Amazon and mobile telecommunications providers now in competition with traditional banking? Is "shadow banking" a threat to the industry or, on the contrary, an alternative and effective solution to what people cannot obtain from financial institutions?

These are some of the questions and issues that, to mark IESE's 10th Banking Industry Meeting organized in partnership with EY, we intend to address in this industry report,[1] which, without being an exhaustive analysis, aims to summarize the direction in which the industry is headed and the challenges before it.

1 Toribio, Juan José & Gifra, Júlia, "The Banking Industry's Role in Recovery: Four Priority Objectives", IESE Business School, OP-271, 2015.

OBJECTIVE 1: RESTORING TRUST AND REPUTATION

It was often said that the financial crisis that began in 2007 was a crisis of ethics and, though this statement would apply to many industries, it is true that the reputation of the banking industry has been particularly affected.

The public can understand their governments getting involved when it comes to taking reasonable measures to help the financial system, given its systemic nature and its importance to the overall economy. However, it is difficult to explain in an understandable way – without affecting the industry's reputation – that, as a result of certain practices and decisions resulting from mismanagement, it has been necessary to rescue and guarantee the deposits of thousands of customers of some institutions (in Spain's case, particularly those in the savings banks).

Restoring the financial sector's reputation and the public's trust in it is not only a question of addressing a negative perception or image. It is also a question of lack of understanding – perhaps a lack of transparency or ethics or regulatory deficits in some aspects. This affects the entire industry and its stability. It is therefore something deeper that requires reflection.

How can we rebuild trust in the banks and restore their damaged reputation?[2]

With More Regulation?

While regulation does not explain or prevent banking crises, it can contribute to their optimal resolution. In Spain, for example, the regulatory framework has exhibited many limitations in the area of resolution, which has meant that crisis management has been more difficult than in other settings since, at the time it was necessary to manage the crisis, the legal framework to manage it was only being put into place.[3]

The banking industry is extensively regulated, both internationally and nationally within each country where it operates. However, this report does not aim to conduct an in-depth analysis of the current legal framework, whose structural reforms are at various stages of implementation.

It is worth recalling, however, that all the regulatory measures taken in recent years, with as the Basel III framework and also in the context of the European Union, are aimed at strengthening the existing regulatory framework by correcting the deficiencies identified during the crisis: increased capital requirements, equity quality improvements, new leverage ratios and new liquidity standards, risk management improvements (particularly for systemic institutions), and reinforcement of supervisory measures. The banking union, to which we will refer later, is a significant advance for the supervisory scope within the European Union.

In short, the structural reforms of the financial system aim to "reduce the banking system's risk overall and mitigate the risk imposed by each individual enterprise on the system as a whole,"[4] while avoiding overall instability and the need to use public funds to rescue banking institutions if they find themselves in difficulty.

2 D. Melé (December 22, 2014), "10 Ways 'Banking Sector Ethics' Can Stop Being an Oxymoron," *Forbes*; G. Caballero and F. Tejada (2014), "Nuevos retos en el sector financiero. Recuperando la confianza" ["New Challenges in the Financial Sector: Restoring Trust"], *Nuevos desafíos del sector financiero: recuperando la confianza y mejorando la cultura financiera [New Challenges of the Financial Sector: Restoring Trust and Improving the Financial Culture]*, Papeles de la fundación n.º 52 [Foundation Papers No. 52], Financial Studies Foundation (FEF), pp. 119–145; J.M. Campa (December 11, 2013), "3 Ways Corporate Finance Can Restore Crisis Damaged Reputation," *Forbes.*

3 A. Carrascosa and M. Delgado (2014), "Crisis bancarias y recuperación de la confianza: el caso español" ["Banking Crises and Restoration of Trust: The Case of Spain], *Nuevos desafíos del sector financiero: recuperando la confianza y mejorando la cultura financiera*, Papeles de la fundación nº 52 [Foundation Papers No. 52], Financial Studies Foundation, p. 49.

4 Ibid., p. 35.

In their assessment of the current regulatory framework, experts recognize that it is both appropriate and necessary but also highlight its inconsistencies and redundancies. On the one hand, there are those who suggest more extensive supervision through sanctions or even criminal proceedings[5] for regulatory breaches, while others warn that excess regulation can act as a brake on banking activity.

Some analysts argue that the package of reforms and policy proposals still fails to provide sufficient clarity and consistency at the national as well as the regional and international levels, since "there are major differences between the specific proposals for formal separation, the activities permitted and excluded within each type of institution, and the structures for supervising and coordinating activities."[6] In fact, the Basel Committee on Banking Supervision, in its most recent report from December 2014 within the framework of the regulatory consistency program, highlights all the inconsistencies and imbalances that exist between the regulatory requirements of the EU and those of Basel III.[7]

It is also being studied whether this desire to overcome deficits does not restrict the industry to the point of creating incentives to undertake certain financial operations in the unregulated financial sector (shadow banking). The fact that the regulations do not discriminate between business models can encourage operations that entail higher than usual lending and deposit risk. Experts therefore highlight the importance of taking into account each entity's business model as well as its higher or lower degree of complexity when implementing the various regulatory measures.

To sum up, nobody is questioning the need for regulation or the incorporation of new requirements to improve security, the management of banking crises, and financial stability, but commentators do caution against regulatory excess, possible regulatory inconsistency and the importance of strengthening the implementation and supervision of regulations.

5 M. Roe (November 4, 2014), "Should Bank Regulators Change Their Focus?" World Economic Forum blog.
6 J.M. Campa (2014), "Reformas estructurales en el sector bancario" ["Structural Reforms in the Banking Sector"], *Nuevos desafíos del sector financiero: recuperando la confianza y mejorando la cultura financiera*, Papeles de la fundación nº 52 [Foundation Papers No. 52], Financial Studies Foundation, p. 42.
7 Bank for International Settlements (December 2014), "Regulatory Consistency Assessment Program (RCAP): Assessment of Basel III Regulations – European Union," pp. 1–86.

With a More Ethical Approach?

A lack of ethics is not attributable solely to the banking industry but it is true that there is an ethical element to the financial crisis that has contributed to the deterioration of the industry's image.

This dimension may be analyzed, according to the conceptions of Professor Argandoña,[8] on three levels: the first has to do with personal ethics and the moral failings of individuals, manifested in inappropriate behaviors that could lead to a crisis (fraud in the sale of certain financial products, sale of toxic assets, etc.).

The second is the ethics of organizations, which had repercussions on the crises of leadership or poor corporate governance of certain commercial and investment banks, investment agencies, hedge funds, etc. – for example, exorbitant and opaque compensation models, etc.

And lastly, the third is the social ethics level, as reflected in the fact that "social conditions were also created that probably encouraged – or at least did not stop – these behaviors, and impeded the functioning of legal, institutional and social mechanisms which, in other circumstances, would have slowed the effects of those behaviors."[9] For example, excessive leverage practices, reduced general creditworthiness, unfair terms...

From this perspective, a solution to the problems created by the crisis requires not only a technical, regulatory response but also an ethical response on these three levels: personal, organizational and social.

8 A. Argandoña (January 2012), "Three Ethical Dimensions of the Financial Crisis," working paper, "la Caixa" Chair of Corporate Social Responsibility and Corporate Governance, IESE Business School, Barcelona, pp. 1–16.
9 Ibid., p. 7.

With More Transparency?

In addition to the ethical and regulatory dimensions, a third factor must be added: transparency, a fundamental element in corporate governance.[10] Transparency in the accounts and in the procedures and decision-making processes of the various governing bodies, executive committee, Board of Directors, and shareholders, as well as all other stakeholders. Transparency when marketing and providing information about financial products to retail customers. Transparency in what the company does, how it does it and the potential consequences this can have.

A transparency that goes beyond formal compliance with regulatory requirements – that is, corporate governance implemented in order to contribute to the actual improvement of organizations and to help the public be able to trust and believe in companies, and in financial institutions in particular, as fundamental elements of economic activity.

Regulation, ethics and transparency are solutions for enhancing reputation and trust. Now, to these three facets must be added the need to go more deeply into banking's raison d'être: to be profitable, sure; to maximize shareholder value, also; but, above all and most importantly, to promote economic and social development.[11]

In this sense, the financial system must continue to assume its role for society as a whole. Roughly speaking, it must create wealth and economic growth, invest appropriately and facilitate credit to households and businesses.[12]

To sum up, regulation can undoubtedly resolve and address some of the failures and shortcomings of the financial model but it does not suffice by itself. This solution must be supplemented with other necessary elements: ethics, transparency and banking's social role.

10 J.M. Campa (2014), "Transparency, a Rising Trend in Listed Companies," *IESE Insight*, No. 21.
11 J. Canals (2010), *Building Respected Companies*, Cambridge, Cambridge University Press, pp. 1–282.
12 World Economic Forum (August 2013), *The Role of Financial Services in Society: A Multistakeholder Compact*, 2013, pp. 1–13.

OBJECTIVE 2: RESTORING CREDIT

One of the financial system's basic functions is to provide loans for the economic operations of the private and public sectors. Lending is in fact a raison d'être of banking.

It is true, however, that credit is at the center of the controversy. At least, as the IMF (International Monetary Fund) highlights,[13] in Europe, where the public and companies do not feel there is adequate credit flow and restoration and, as a consequence, they transfer responsibility to banking institutions, which in turn demand borrower creditworthiness to an extent unlike in previous periods.

Actually, the supply and demand sides both have elements that explain the credit crunch and the need for recovery. This recovery requires measures both at the macroeconomic level (a reduction of bank fragmentation in the Euro Zone, a move toward fiscal union and effective banking integration, and breaking the vicious circle of bank debt and sovereign debt) and in the credit market as such (among other solutions, debt relief for households through adapted bankruptcy mechanisms, measures to enable SMEs to access capital markets, etc.).[14]

Analysts point to credit recovering along with the gradual recovery of the economy but they point out that this depends on guaranteeing the profitability, efficiency and liquidity of the institutions. At the same time, they point out that this recovery will be slow pending completion of the deleveraging process. Moreover, lending practices will not mirror those prior to the crisis but minimum guarantees of solvency will be required.

The measures adopted by the ECB (European Central Bank), including its recent purchase of public debt, can boost credit recovery, though we must wait to assess the full extent of their impact.[15] In any event, the ECB program on its own is insufficient for economic recovery, since each country should continue to take the necessary structural measures to ensure that this plan will serve as a stimulus whose effects will be felt quickly.

13 IMF (October 2014), *Global Financial Stability Report – Risk Taking, Liquidity, and Shadow Banking: Curbing Excess While Promoting Growth*, pp. 1–191.

14 J.J. Toribio (November 2014), "Pero ¿qué pasa con el crédito?" ["So What's Going on With Credit?"], *Comentarios de coyuntura económica*, IESE Business School, No. 2.

15 J. Gual (Friday, January 23, 2015), "Tres de cal y una de arena" ["Three Apples and One Orange"], *Expansión*.

OBJECTIVE 3: ADAPTING TO THE BANKING UNION

Advances toward a European banking union undoubtedly stand out among these complementary measures. The union derives from the June 2012 declaration of the European Council and is now in a provisional phase prior to its taking full effect in 2026. It is a long-term project that nonetheless requires a major adaptation effort today.

The banking union is based on distinct pillars, all of which are important and interrelated: regulatory harmonization in the areas of solvency and liquidity, common supervision, common resolution, and a deposit guarantee fund. These elements are presently at varying stages of implementation and essentially depend on the political will of the member states. In any event, these elements set forth a new institutional architecture that will slowly combat financial fragmentation in Europe and provide stability and competitiveness.

The Single Supervisory Mechanism (SSM) is already in force and operates a supervisory scheme based on the harmonization of rules and criteria, and a joint system between the ECB and the appropriate national banks. The ECB directly supervises so-called systemic institutions (those with assets in excess of €30 billion and greater than 20% of GDP) and the rest are monitored by the national supervisory authorities (NSAs). The ECB has the authority to supervise, as it may consider necessary, any institution regardless of size. In addition, supervision includes an external review of the institution's assets and of the well-known stress tests.

According to the experts,[16] the SSM's major challenges in the coming years are to:

- Ensure that supervision is truly "single" and avoid the risk of ending up with two supervisors. To this end, the following are key:
  - (i) Communication and coordination between the ECB and NSAs.
  - (ii) Proper functioning of the Joint Supervisory Teams (JSTs).
- Ensure that supervision follows and reflects best practice. This will require an orderly transfer of responsibilities and knowledge from the NSAs to the ECB. The key elements are:
  - (i) Proper implementation of the single supervisory rulebook (SREP, ICAAP, etc.).
  - (ii) Suitable management of Pillar 2 on single resolution.
- Provide the ECB with the appropriate resources/instruments: budget (supervision fee) and greater integration of the nearly 1,000 new employees.
- Develop good relationships with other supervisors and ensure that the ECB also looks beyond the scope of regulation. New bridges must be built on (that is, not destroying) those existing between the NSAs and the supervisors outside the scope of the SSM.

16 Presentation by Professor José Manuel González Páramo, "Toward a European Banking Union: From Euro 1.0 to Euro 2.0," BBVA Research, December 10, 2014.

For its part, the Single Resolution Mechanism (SRM), as a necessary complement to the supervisory system, establishes criteria for the restructuring and rescue of troubled banks, ensuring to this end that national resolution funds created on the basis of contributions from the banks themselves are available prior to the implementation of state aid measures to rescue troubled institutions. These funds are those that must cover the costs of the corresponding rescue, once the private sector has covered its part. This mechanism will come into force in 2016 with the new bail-in rules.

The pending challenges of this new resolution mechanism are as follows:[17]

- To continue building a single resolution authority, which should be operating in January 2015 (with full powers of resolution from January 2016). The methods should be adequate to serve this purpose.
- Communication between the Single Resolution Board (SRB) and the banking supervisor (ECB) should be constant and fluid. The SRB should prepare an initial assessment of its capacity for resolution with a focus on the major European institutions.
- Guidelines for coordination with the SRM's national resolution authorities as well as with those of third countries must be developed.
- The absence of a European public backstop until 2023 is a weak point. A common backstop is essential to give credibility and consistency to the whole mechanism. (It becomes even more important in the absence of a single deposit guarantee fund.)
- A Single Resolution Fund (starting date scheduled for 2016) and a private credit line for the fund must be prepared.

The overall institutional and legal structure should lead to increased trust, not only for investors but for society as a whole. Likewise, it should help reduce financial fragmentation and, as far as possible, help avoid future crises like the one recently passed.

There is consensus that advances in the banking union should occur continuously and even at a faster pace. In fact, the 2013 IMF report on financial stability[18] had already mentioned that, at the time, the fragmentation of the European financial market was one of the main obstacles to recovery, especially in those countries hardest hit by the crisis and sovereign debt.

In short, assessments of the banking union are positive from both the public and private sectors: everyone agrees that it provides transparency and will be an effective mechanism for promoting economic growth and better managing future crises.

Looking to the future, there are still many steps before we arrive at what the experts call "euro 3.0" in the framework of a real European political union.

17 Presentation by Professor José Manuel González Páramo, "Toward a European Banking Union: From Euro 1.0 to Euro 2.0," BBVA Research, December 10, 2014.

18 IMF (October 2014), *Global Financial Stability Report – Risk Taking, Liquidity, and Shadow Banking: Curbing Excess While Promoting Growth*, pp. 1–191.

OBJECTIVE 4: UNDERSTANDING AND ADAPTING TO CHANGING CONTEXTS

The banks are currently adapting their strategies to digitalization and new demands of their customers, and this process is truly transforming the industry.[19]

Digital density[20] is directly affecting the banking industry. Some of the more apparent changes include: reduced customer presence at branches, reduced use of bank cards, and a demand to be able to manage bank affairs and make payments and transfers in real time via mobile devices.

Technological Disruption

Banking is an industry with a well-established technological base. For years it has been investing in platforms, software and other features necessary for its regular operation, which creates an advantage for entry. However, the impact of digitalization is not confined to this sphere but goes further and requires a new strategic vision of how customers want to engage with their institution, what they want from their bank, and what types of products and services they expect.

What do customers ask for? Multichannel access; availability 24 hours a day, seven days a week, 365 days a year; a comprehensive, personalized, simple service offering that works; transparency; trust; social awareness, etc.

Some banks are proceeding at a slower speed, with their transformation limited to the incorporation of some online banking services. Others are transforming to a greater extent, by taking measures including: the integration of social CRM with online banking, making changes to branch layouts, adapting commercial policies, progressing in their analysis of big data, and offering personalized products with improved service quality, among other changes.

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19 O. Denecker, S. Gulati and M. Niederkorn (August 2014), "The Digital Battle That Banks Must Win," *McKinsey & Company Insights*, pp. 1–6; E. Káganer and J. A. Virgili (2012), Impact of Social Media on the Financial Services Sector, GFT Technologies, pp. 1–24.

20 The concept of Digital density proposed by IESE professors Zamora, Sieber and Káganer refers to the totality of connections, interactions and information that ultimately have a transformative impact on people's lives and different business sectors. See E. Káganer, J. Zamora, and S. Sieber (third quarter 2013), "5 Skills Every Leader Needs to Succeed in the Digital World," *IESE Insight*, No. 18.

Shadow Banking

Within this context of change, we must also mention the emergence of new firms from outside the banking industry that introduce new business models focused on lesser-regulated areas, such as loans and payment processing. Some companies, such as Alibaba, Google and Apple, already offer credit and also have banking licenses. In emerging countries, the high level of penetration of mobile telecommunications enables telephone companies to offer payment and transfer systems.

In settings such as Europe or other countries with high banking rates, the challenge is to continue to offer these services in a flexible and attractive manner, while establishing multichannel strategies that cover a wider array of financial products and services. So, for example, banks have a head start in terms of their access to customer information and data: transactions, places, buying habits, etc. In short, they have a competitive advantage in big data management, which should enable them to offer a range of new products and much more attractive and personalized services.

Confronting these challenges undoubtedly requires a proper grasp of changing time, as the rapid pace of digitalization can leave an institution in a position of leadership and innovation or fighting to survive.

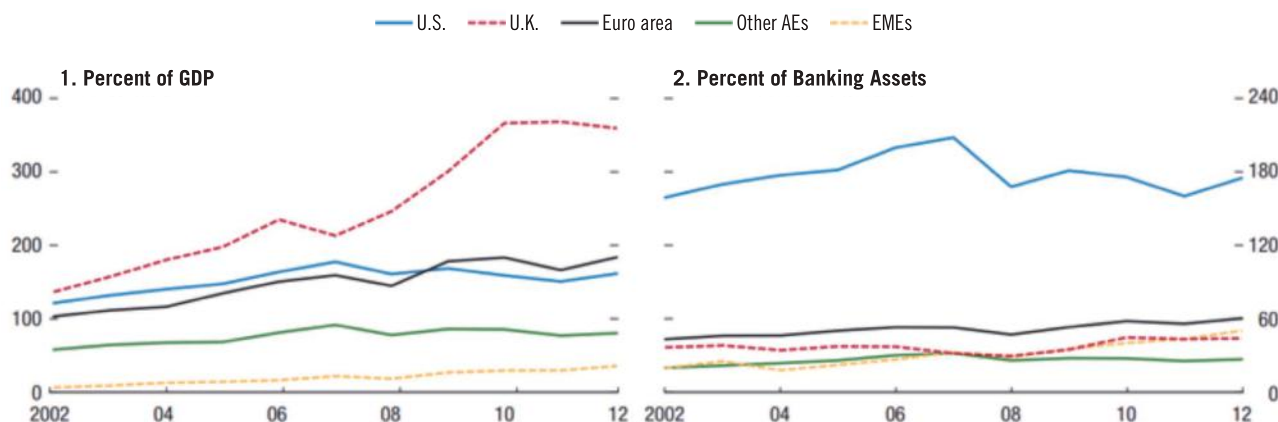
As previously mentioned, the technological challenge involves growing disintermediation, with the emergence of alternative financial service providers and new payment platforms associated with companies outside the conventional banking sector.

"Shadow banking" refers to the set of financial intermediaries and activities that are either partially regulated or altogether detached from the traditional banking system and the regulations that apply to it. This concept covers financial institutions such as mutual funds, hedge funds, private equity and other intermediaries that facilitate the creation of credit.[21] Some of these institutions have a long history[22] although, since the financial crisis, they have grown in the markets of both developed and emerging countries.

There are no exact criteria for obtaining a reliable estimate of the scope or number of entities and/or activities that fall under this umbrella. However, initial estimates made by different institutions such as the IMF and BIS (Bank for International Settlements) on shadow banking assets, as covered by the concept of "other financial intermediaries," indicate that in 2013 these assets grew by $5 trillion, reaching a total sum of $75 billion worldwide (nearly €60 trillion).[23] It is estimated that shadow banking assets account for 24.5% of total financial assets and represent almost half of the banking system and 123% of global GDP. China has become the third largest market after the United States and the United Kingdom, as the following graphs illustrate.

21 For thorough analyses, see IMF (October 2014), "Shadow Banking Around the Globe: How Large, and How Risky?" in *Global Financial Stability Report – Risk Taking, Liquidity, and Shadow Banking: Curbing Excess While Promoting Growth*, chapter 2, pp. 65–104; Financial Stability Board (October 30, 2014), *Global Shadow Banking Monitoring Report*, pp. 1–56.
22 For example, in the United States, the authorities have created institutions such as the Federal Home Loan Bank (1932), the Federal National Mortgage Association (Fannie Mae) (1938), the Government National Mortgage Association (Ginnie Mae) (1968), and the Federal Home Loan Mortgage Corporation (Freddie Mac) (1970).
23 This amount may be smaller given the ambiguity of the concept of shadow banking. Some definitions of shadow banking do not include equity investment funds, for example.

SHADOW BANKING ASSETS



Note AE advanced economy, EME emerging market economy.

Source: Financial Stability Board, IMF, World Economic Outlook database, and IMF estimates[24]

The shadow banking phenomenon certainly arouses controversy within the industry: there are those who say it may increase the systemic risk of future crises, and there are those who point out that its growth and expansion are due to an existing demand for which the traditional banking system does not have an adequate response.

Shadow banking therefore carries risks and benefits.[25] On the one hand, it can “play a beneficial role in complementing traditional banking by expanding access to credit or supporting market liquidity, the transformation of maturities and risk pooling.”[26] On the other, it can lead to banking-specific risks owing to its dependence on short-term financing, which through the rapid sales of assets can lead to a downward spiral without sufficient advance notice. In addition, there is an interconnection between shadow banking and the traditional banking system.

The trend is toward greater regulation of these activities and institutions. This follows the recommendations of the Financial Stability Board,[27] as well as the reforms and recommendations adopted in the framework of the Basel Committee on Banking Supervision. In addition, in the EU, the directive on alternative investment fund managers[28] and the set of regulatory measures relating to Solvency II for the insurance industry[29] point to a broader regulatory scope for these kinds of parallel activities.

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24 IMF (October 2014), “Shadow Banking Around the Globe: How Large, and How Risky?” in *Global Financial Stability Report – Risk Taking, Liquidity, and Shadow Banking: Curbing Excess While Promoting Growth*, p. 6; Financial Stability Board (October 30, 2014), *Global Shadow Banking Monitoring Report*, pp. 1–56.

25 J. Soley and C. Sánchez de León (2013) “Luces y sombras del ‘shadow banking’” [“The Lights and Shadows of Shadow Banking”], *IESE Insight*; J. Soley and C. Sánchez de León, FN-617-E, “Shadow Banking,” IESE, November 2013; A. Moreira and A. Savov, (September 18, 2014) “Is Shadow Banking Good for the Economy?” World Economic Forum.

26 IMF (October 2014), “Shadow Banking Around the Globe: How Large, and How Risky?” in *Global Financial Stability Report – Risk Taking, Liquidity, and Shadow Banking: Curbing Excess While Promoting Growth*, pp. 1–191.

27 Financial Stability Board (October 2013), “Strengthening Oversight and Regulation of Shadow Banking. Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos,” pp. 1–54.

28 Directive 2011/61/EU of the European Parliament and of the Council of June 8, 2011.

29 See the set of directives and other legislation related to this area of regulation at http://www.dgsfp.mineco.es/sector/solvencia2.asp [in Spanish].

CONCLUSIONS

• The banking industry has overcome the crisis after a long period of readjustment that has come at a cost to the private and public sectors. The challenges are manifold: consolidating the recovery and dealing with the priority objectives.

• Objective 1: recovering the industry's **reputation** and the public's **trust** in it is one of its main challenges. The experts advise that deeper engagement with society, greater regulatory clarity and broader application, greater transparency and more ethics will help tackle this important challenge.

• Objective 2: restoring **credit** as a necessary tool for economic recovery continues to be an ongoing matter, especially in Spain. The experts point to a slow and gradual recovery, although they already predict that the pattern will not be the same as before the crisis. Borrower creditworthiness and profitability requirements are among the elements that characterize this new era.

• Objective 3: adjusting and adapting to the **banking union**. The new institutional and regulatory framework is a breakthrough for the industry, as uniform rules and supervision seek to lessen the financial fragmentation in the Euro Zone and to provide stability and transparency. We must follow through with its implementation phases and rapidly adapt to the changes.

• Objective 4: the previous objectives must be readily adaptable to the new requirements of the technological context and disintermediation. It is essential to **focus on the customers** and what they require and expect of their bank. Their aspirations include credit recovery and promotion, as well as the provision of effective, transparent and comprehensible financial services in a world where **disruptive technological innovations** create new trends and forms of relationship. The technological challenge also involves an increasing disintermediation through the emergence of alternative financial service providers (shadow banking) and new payment channels associated with companies outside the conventional banking industry.

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IESE 10TH BANKING INDUSTRY MEETING

Agenda

December 10, 2014
Introduction
Professor Juan José Toribio, president, IESE-CIF (Center for International Finance) José Luis Perelli, country managing partner, EY Spain
Opening session
Luis María Linde, governor, Banco de España
Toward a european banking union: from euro 1.0 To euro 2.0
Professor José Manuel González-Páramo, IESE Business School
Spanish banking in the context of europe
José María Roldán, chairman and CEO, Spanish Banking Association (AEB) **Moderator:** Alberto Placencia, partner financial services, EY Spain
New banking scenario: paths toward profitability
Ángel Cano, CEO, BBVA **Moderator:** Professor Juan José Toribio, IESE Business School
Interest rates and bank profitability
José Sevilla, CEO, Bankia **Moderator:** Alberto Placencia, partner financial services, EY Spain

Shadow banking, technology and disintermediation: challenges and opportunities
Professor Jorge Soley, IESE Business School
Driving credit and recovery
Francisco Gómez, CEO, Banco Popular **Moderator:** Professor José Luis Suárez, IESE Business School
Bank profitability in the context of recovery
Jaime Guardiola, CEO, Banco Sabadell. **Moderator:** José Carlos Hernández, lead partner for assurance of the financial services group, EY Spain
New trends and models for client relations
Gonzalo Gortázar, chief executive, CaixaBank **Moderator:** Professor Jorge Soley, IESE Business School
Structural reform and internationalization in banking
Juan Rodríguez Inciarte, Executive Board member, Banco Santander **Moderator:** Professor Juan José Toribio, IESE Business School

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Academic Director

Professor Juan José Toribio
President,
IESE-CIF (Center for International Finance)

Speakers

Ángel Cano
CEO,
BBVA

Jaime Guardiola
CEO,
Banco Sabadell

Francisco Gómez
CEO,
Banco Popular

José Carlos Hernández
Lead partner for assurance of the financial services group,
EY Spain

José Manuel González-Páramo
Professor,
IESE Business School

Luis María Linde
Governor,
Banco de España

Gonzalo Gortázar
Chief executive,
CaixaBank

José Luis Perelli
Country managing partner,
EY Spain

Alberto Placencia
Partner financial services,
EY Spain

Jorge Soley
Professor,
IESE Business School

Juan Rodríguez Inciarte
Executive Board member,
Banco Santander

José Luis Suárez
Professor,
IESE Business School

José María Roldán
Chairman and CEO,
Spanish Banking Association
(AEB)

José Sevilla
CEO,
Bankia

QUOTATIONS

T

THE FINANCIAL SYSTEM CANNOT ADVANCE WITHOUT A CHANGE OF PERCEPTION AS TO ITS UTILITY AND ROLE IN SOCIETY.

Gonzalo Gortázar,
CEO, CaixaBank

R

REGULATORY REFORM MUST DISTINGUISH BETWEEN BUSINESS MODELS AND AVOID REDUNDANCY IN APPLICATION.

José María Roldán,
chairman, Spanish Banking Association (AEB)

H

TODAY MORE THAN EVER, THE BANKING INDUSTRY'S PROFITABILITY DEPENDS ON MEETING THE NEEDS OF CUSTOMERS WHOSE SPENDING HABITS AND EXPECTATIONS HAVE CHANGED IN ALL SPHERES.

Ángel Cano,
CEO, BBVA

W

WE WILL SEE GREATER ROTATION AND BANKS EVEN TAKING PART IN SHADOW BANKING WITH NEW FINANCIAL SERVICES THAT PROVIDE HIGHER MARGINS.

Jaime Guardiola,
CEO, Banco Sabadell

W

WE MUST, ONCE AGAIN, GO MORE DEEPLY INTO THE ROLE OF BANKING TO GUARANTEE ITS CONTRIBUTION TO ECONOMIC AND SOCIAL DEVELOPMENT WITHIN A CONTEXT OF FINANCIAL STABILITY.

Professor Juan José Toribio,
IESE-CIF

W

WHY IS THERE THIS NEGATIVE VIEW OF SHADOW BANKING WHEN, IN MANY COUNTRIES, ITS FINANCING, INCLUDING TO SMES, HAS REPLACED TRADITIONAL BANK FINANCING?

Professor Jorge Soley,
IESE Business School

T

THE DIGITAL REVOLUTION CAN TURN THE BANKING INDUSTRY INTO A COMMODITY. DIFFERENTIATION WILL BE THE KEY.

Juan Rodríguez Inciarte,
Executive Board member, Banco Santander

T

TODAY'S CUSTOMER IS MORE DEMANDING AND MORE INFORMED AND HAS A HYPERCRITICAL ATTITUDE TO THE BANKING INDUSTRY. WE MUST IMPROVE IN TERMS OF PROXIMITY AND PERSONALIZED ATTENTION.

Francisco Gómez,
CEO, Banco Popular

T

THE FUTURE DEPENDS ON CONTINUING TO HAVE STRONG AND HEALTHY INSTITUTIONS THAT WILL CONTRIBUTE TO THE PROCESS OF ECONOMIC RECOVERY, WITH SPECIAL EMPHASIS ON JOB CREATION.

José Luis Perelli,
country managing partner, EY Spain

T

THE BANKING UNION WAS NOT CREATED SO THAT WE COULD INHERIT THE BAD LEGACY OF THE PAST BUT TO MOVE US INTO THE FUTURE.

Professor José Manuel González-Páramo,
IESE Business School

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