

EPFSF Lunch Discussion

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“Protecting EU retail investors: More to be done?”

Speech from Pedro Alonso Gil
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Ladies and Gentlemen,

I would like to thank the EPFSF for inviting me to this lunch session, Ms. Catherine Denis for her smooth organisation and all of you for your attendance and attention.

I've been requested to keep my intervention to 7 minutes. Short for someone who has been working in banking for over 15 years, but I'll try to do my best to share with you my thoughts on retail investors' protection in an effective way.

This year we mark the 150th anniversary of the publication of Charles Darwin's seminal work "On the origin of Species". In it Darwin exposed his controversial theory on natural selection and the evolution of the species. According to it, the species that survive and evolve are not the fastest or the strongest ones, but those that better adapt themselves to the environment.

In a similar way, I think this theory also applies when talking about the financial system. **When we are asked to explain how come that two of the largest banks and two of the main savings banks in the European landscape are based in Spain, Darwin is the answer:** Spanish banks have successfully adapted to a more competitive environment.

The increasing level of competition and the banking crises in the '70s and '80s have forced us to focus on customers and to adapt to new market conditions. Those who failed to adapt have disappeared. At the same time, **this fight for survival is reflected in the continuous improvement of the efficiency ratio** of Spanish entities, now much lower than those of our European and American peers.

Referring in particular to Santander, we have a long history since the bank was established in 1856, even before Darwin's landmark work was published and still here!. Today:

- Santander is operating in 17 countries of the EU27 and serves over 90,9 million clients, 56% of them based in Europe and with satisfaction levels above 86%.
- Santander is a retail bank with over 14,000 branches in the world.
- Santander has a successful and resilient retail banking model, as our long history, our extensive presence and our results show.

Our strong market position and our focus on the customer allow us to go beyond our strict legal responsibilities and provide our customers with solutions when we deem it convenient. A recent example, in the Lehman Brothers and Madoff cases.

Now I will focus on the retail banking sector from the supply side – financial entities, supervisors and regulators – and also from the demand side – the clients -. Like in

Dante's "The Divine Comedy", I will refer to three deadly sins that I think we should avoid determining the correct way forward in European measures to protect retail investors.

I will start with the supply side preventing you against SLOTH, the sin of laziness or indifference.

Firstly, we believe that competition is crucial to protect investors. Competition means the ability to provide the best products and services while maintaining a level playing field. Competitive financial entities should be appraised and bad ones should not be taken as a reference. We are now competing with entities that have got "extra-vitamins" and this is unfair and dangerous, as it gives the wrong incentives to the market.

Secondly, Spanish banks are today among the most efficient in the world, with an efficiency ratio lower than 50% on average. We want to survive while improving at the same time our services and products. In Santander, efficiency means, in short, **"Expand the front end and cut the back end"**.

We consider that there is still room to improve efficiency. For example, by moving to one Member State the back office processing of a bank's subsidiaries in other EU Member States. If the barriers that render difficult this process were removed, we could concentrate our back office processing in one Member State.

On the demand side, I would like to warn you against LUST, an immoderate desire for one's neighbours. Some times wrong decisions are taken for good purposes, but they are still wrong decisions. By putting the blame on the banks' side, you do not protect the customers. On the contrary, the relation between banks and customers should be a win-win one.

Let's refer first to the **Consumer Credit Directive**. As you know, in case of early repayment, article 16.4 of the Directive defined the threshold from which compensation can be claimed by the creditor and reduced that compensation from 3% to 0.5%-1% of the amount of the credit repaid early. With this approach, entities will simply not offer long-term consumer credit financing at fixed interest rates.

Then, the European Commission seems to want the banks to treat equally what is different. For example, the concept of **"substitute retail investment products"**. This is a category where very different products have been included, products that have a different risk profile, that answer to different financial needs and that have been designed for non-homogeneous investment frames.

A last example refers to the critics coming from European institutions that place under suspicion the **bank's interest when working with its clients**. With 50.9 million clients in Europe, our interest is our clients' interest. And it'd better remain so! Why a commercial branch of a registered and supervised entity is not the best place to sell a product?

Finally, I would like to refer to a third capital sin, PRIDE, an excessive or irrational belief in one's own excellence in the eyes of others. In my opinion, this is reflected in real life when too much time and resources are allocated to topics which situation perhaps does not deserve such a high priority.

As an example, I will refer to **financial inclusion** and the proposal to ensure access to a basic bank account. According to a 2007 Eurobarometer survey, 7% of respondents consider access to a basic bank account as difficult, and 2% do not have such access

at all. Firstly, figures vary widely between Member States - financial inclusion is not a problem in a number of them. Secondly, those countries affected will see that problem disappear as their financial systems achieve European benchmarks; and lastly, let's not forget that different factors contribute to this situation and many of them are not related to the activities undertaken by financial institutions and should be addressed by national authorities. For example: financial education. Other example in the case of Spain is legislation concerning illegal immigration, which may be more relevant to explain the results stated in that survey.

To finish my speech, I would like to recap my ideas saying that if we want to have a healthy retail financial market, we should:

- Encourage competition,
- Require transparency from agents,
- Reassess and strengthen the role of financial supervisors, and
- Focus on the issues that are important to build an efficient and integrated retail financial market, where clients are satisfied with the products and services offered and investors are adequately protected.

Ladies and Gentlemen, thank you again for your attention. I will be delighted to answer to any comments or questions you may have.