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The transformation of Spanish Retail Banking Industry: Historical Developments and New Challenges

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Abstract

Historically, the European banking systems have been characterized by their institutional variety, a concept that is usually summarized according to the so-called "three-pillar" banking system, comprising private banks, (public) savings banks and (mutual) cooperative banks. Major institutional changes and subsequent regulatory reforms occurred with special intensity starting in the 1980s, with the dismantling of said system materializing progressively and with a very different intensity. As a result, the panorama prior to the 2007 crisis included a European banking system that had lost a good share of the institutional variety that it had in the 1960s. Within this framework, Spain would have been one of the countries most representative of the 3-pillar system until very recently, as the result of its institutional variety, especially in terms of the strong market share of its savings banks and due to their persistence. This historical approach provide us some lessons we can learn from the Spanish case, and some conclusions with respect the future of retail banking.

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1. European retail banking, a survey

By way of introduction it would be interesting to situate, albeit briefly, the Spanish retail banking sector in the European context. To a certain extent, the Spanish banking system has been configured in the image and likeness of the European system. However, as early as the 19th century, idiosyncrasies emerged that contributed to certain peculiarities of the Spanish system.

Historically, the European banking systems have been characterized by their institutional variety, a concept that is usually summarized according to the so-called "three-pillar" banking system, comprising private banks, (public) savings banks and (mutual) cooperative banks (Bülbül et al., 2013; Ayadi et al., 2009). Spain has also participated since the mid-19th century in this structure, a system basically consisting of commercial and industrial banks, public banks, the savings banks and the cooperative banks. At the European level, the system has evolved and adapted to the specific regulatory and institutional conditions of each of the national economies on the continent.

Major institutional changes and subsequent regulatory reforms occurred with special intensity starting in the 1980s, with the dismantling of said system materializing progressively and with a very different intensity. As a result, the panorama prior to the 2007 crisis included a European banking system that had lost a good share of the institutional variety that it had in the 1960s.[1] This framework can be synthesized from the sample in figure 1. On the one hand, we see a group of countries that maintain the 3-pillar system to a greater or lesser extent, and on the other, the majority of countries in which the banks resemble a less diversified institutional model (Carletti, 2005; Nordic Central Banks, 2006).

Within this framework, Spain would have been one of the countries most representative of the 3-pillar system until very recently, as the result of its institutional

[1] A long run approach to financial and banking crisis in Eichengreen and Bordo (2003), and Bordo et al. (2001).

variety, especially in terms of the strong market share of its savings banks and due to their persistence. Along with Spain, we can see other very significant and persistent cases, such as Germany, Austria and Norway. Other countries that had been steady representatives of the system lost their diversity in the context of the deregulation that occurred in the 1980s and 1990s, such as the case of the UK, Italy and Belgium; meanwhile, countries like France, the Netherlands, Switzerland and some of the Nordic countries (such as Finland and Sweden) lost part of their institutional variety (Ayadi et

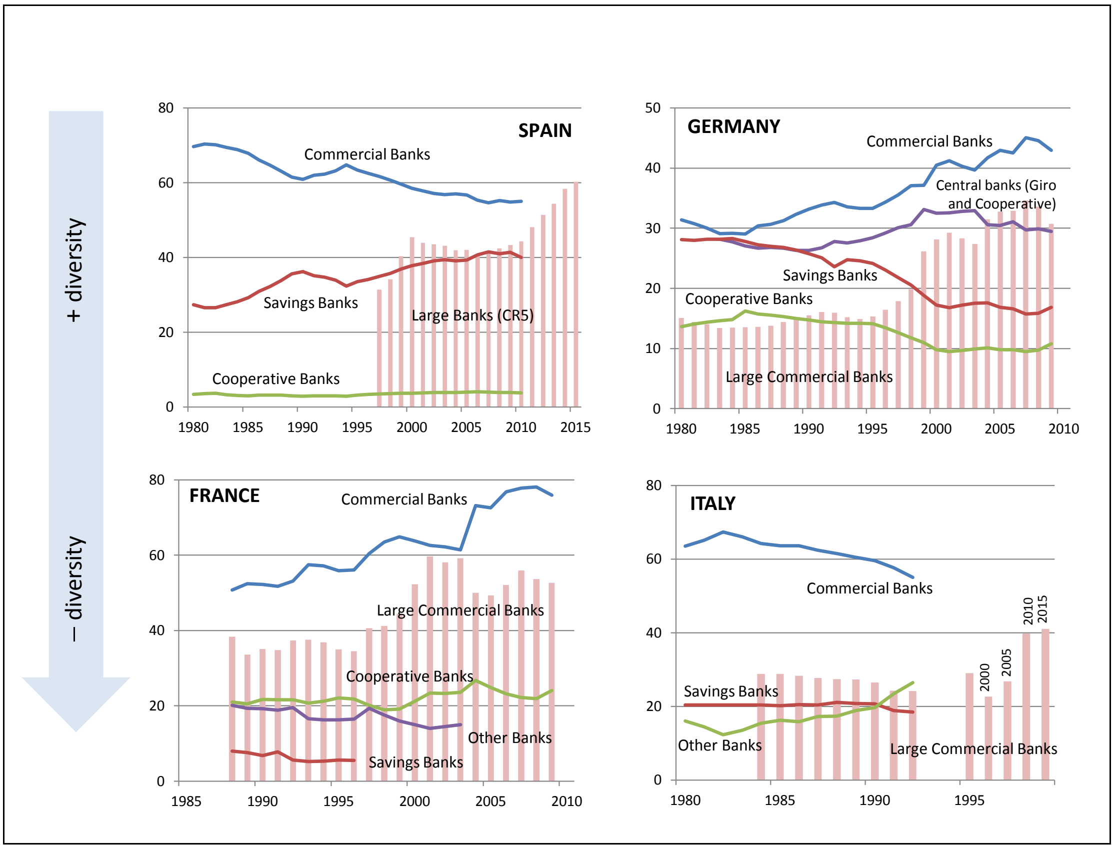

Figure 1. The European three pillar banking system: a sample
Sources: OECD, Bank Profitability – Financial Statements of Banks, Paris, 2004; and European Central Bank.

al., 2009; Maixé-Altés, 2012). In any case, Spain followed its own path until the recent crisis, in which we witnessed the collapse of the savings bank system. Therefore, it is good to bear these characteristics in mind, in order to consider the implications of the changes in retail banking and its future expectations.

Another factor that enables us to position the Spanish case in the European context is the degree of concentration of its banking industry in relation to the rest of the countries in the EU, and the weight of the banking assets with respect to the GDP, as compared to the mean of the EU. Figure 2 shows the degree of concentration of the Spanish banking industry in recent decades has been below the European average, but above that of countries like Germany and Italy. However, between 2007 and 2015, as a direct effect of the crisis, a noticeable increase of 19 percentage points in the CR5 occurred, which surpassed 60%. In terms of the GDP, Spanish banking assets as a whole grew in line with the historic European and world trends, holding steady at a level slightly below the European average. However, in recent times, also as a consequence of the crisis, said ratio has been above the European average. Finally, Spanish banks hold a spot in the TOP 50 world banks, alongside many other European countries; this ranking includes 5 British banks and 5 French banks; Germany, Italy, Spain and Switzerland follow with two banks each, and finally, Sweden has one bank in this ranking.

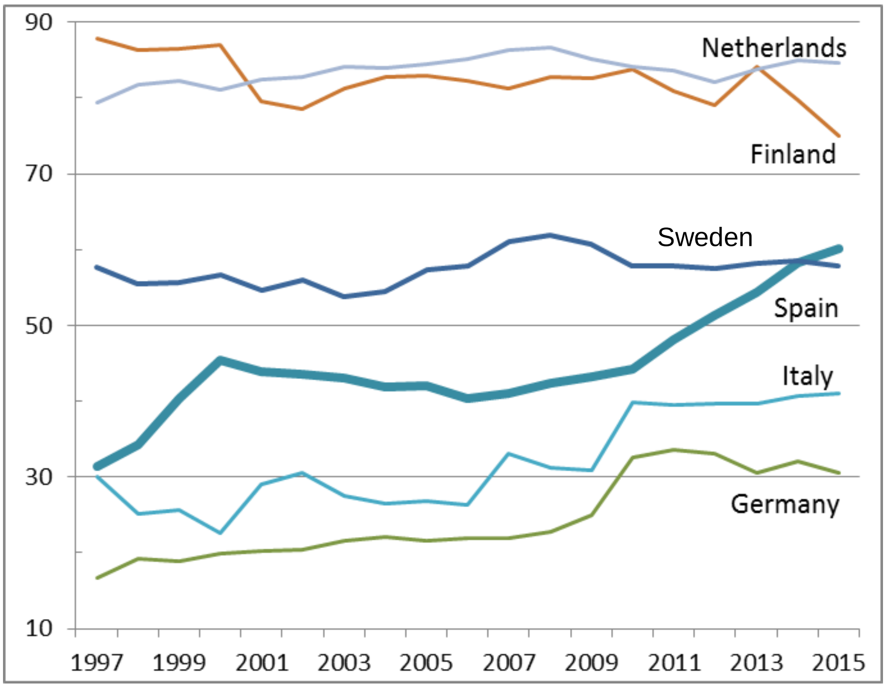

Figure 2. CR5 – Share of the 5 largest credit institutions in total assets (as a %).
Source: European Central Bank

As a result, there are enough elements in the Spanish case to make it interesting to draw conclusions regarding the future of retail banking; to summarize, these factors are: the persistence of the 3-pillar system, the impact of the savings banks, the global impact of some of its large banks and, finally, the sudden breakdown of the system caused by the 2008 crisis.

2. Spanish banking in the sixties: the traditional three-pillar system in a framework of 'financial repression'

In the 1960s, Spain began a period of economic expansion that meant the emergence from the deep depression experienced by the country throughout almost two decades of autarky, following the Civil War of 1936-1939.

After the stabilization plan of 1959, in a scenario of industrial growth, they banking system in general followed the parameters established by the governmental regulations enacted through the banking laws of 1946 and 1962. Both laws had changed the regulatory framework prior to the Civil War, increasing interventionism on the part of the state. Regulation and control over the banking system were tightened to the point that most banking operations were subject to control by public authorities (Pons, 2002).[2] The system was especially conditioned by three measures:

- In 1946, entrance barriers were introduced in the sector, which nonetheless favored a movement of relative banking concentration.
- Banks and savings banks were intensively regulated by the government (financial repression) in order to finance its economic growth policy, thus avoiding increases in the public deficit. This policy was accompanied by an inflation tax (Comín, 2012).

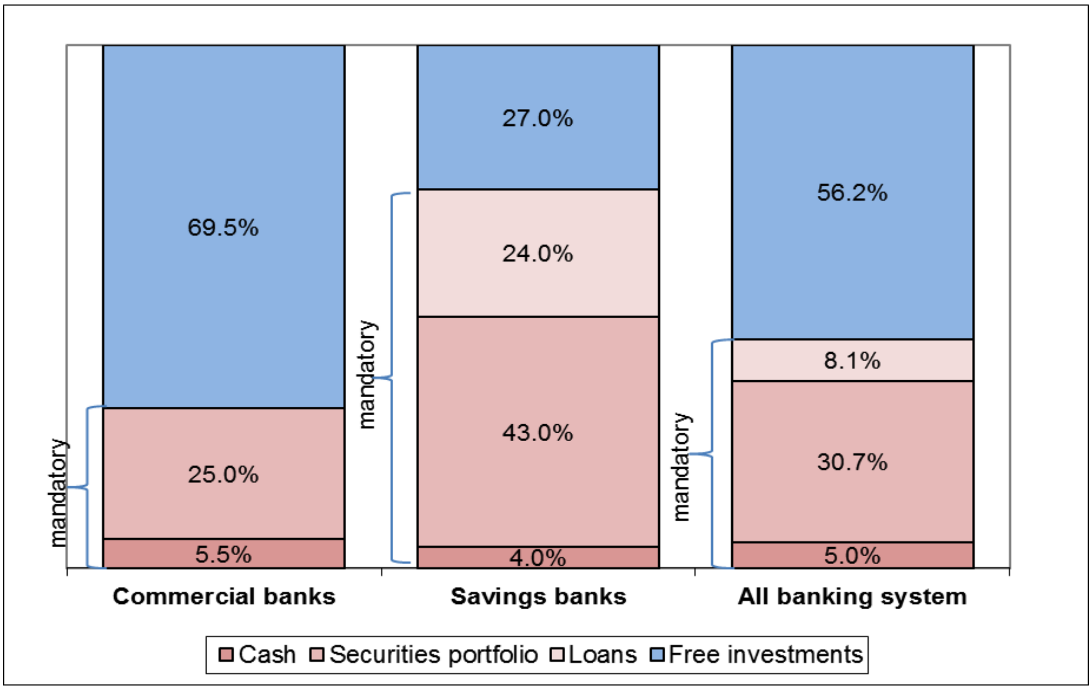

Figure 3. Credit system coefficients in Spanish banking system before deregulation in 1977.
Note: all banking system also includes credit cooperatives and industrial banks.
Sources: author from Ministerial Orders 31 March 1973, 9 October 1974 and 10 March 1976, and Bank of Spain.

[2] A compilation and analysis of financial and banking crises in the last 120 years in Spain in Betrán et al., 2012.

- The regulation established privileged funding channels through mandatory investment quotas for all financial institutions in the form of public debt, bonds and shares in sectors identified as priorities (public and private companies).

Before the financial reform of 1977 (figure 3), savings banks only had free access to 27% of their investment resources, while the commercial banks had 69.5% and the average for the banking system as a whole was 56.1%. This legislation had been accentuated by the 1962 reform, which also nationalized the Bank of Spain, with the multiple objectives of controlling money creation and facilitating the implementation of monetary policy (see Ros Hombravella, 1967; Cuadrado Roura et al., 1978; Lukauskas, 1994; Martín Aceña, 2012; Comín, 2012).

However, in spite of the enormous limitations imposed by the regulation, the 3-pillar system was respected that historically made up the Spanish banking system: private-sector banks, public banks, savings banks and rural savings banks (credit cooperatives). The aforementioned limitations affected the entire banking system, although it especially affected the savings banks. I will briefly comment on the characteristics of the banking system during that period.

First, in practice, the private Spanish banks in those years were mixed banking institutions (both commercial and industrial banks), with a scarce amount of specialization. The big six banks (Banco Hispano Americano, Central, Español de Crédito, Bilbao, Vizcaya and Santander) stand out, which had initiated the construction of branch networks nationwide, starting in the 1920s. In 1960, they absorbed 60% of the resources in the sector, as compared to the 20% that the savings banks lawfully held; the rest corresponded to public banks and a minor percentage to the rural credit cooperatives (Bank of Spain and CECA).

Second, during the years of Francoist interventionism and privileged financing, public banks, in turn, played a principal role in the credit offering, especially at the end of the 1960s, at a level similar to that of private banks (García Ruiz, 1999).

Third, the savings banks were the ones under the greatest pressure in terms of their institutional characteristics, even though the interventionism of the Regime was unsuccessful in making their institutional idiosyncrasy disappear.

First of all, historically speaking, we must stress the private nature of these institutions. They were set up as non-profit oriented foundations, ruled by a board of local people with freedom of organization (self-regulating character) and a local, provincial or regional scope. Only in certain specific cases did their promoters include any public institutions, such as local authorities and town councils. As previously mentioned, governmental interventionism was not successful in converting them into public institutions. There is little doubt that they lost their high degree of autonomy during this period, but the government preferred to control said institutions by regulating their investments as opposed to nationalizing them. Therefore, I want to insist on the formal maintenance of their private nature until its disappearance in recent times (Martínez Soto and Cuevas, 2004; Comín, 2007; Maixé-Altés, 2010).

Secondly, another characteristic that also remained, and which surely caused serious imbalances in the reforms that were implemented with deregulation in the eighties, was their character as institutions without owners in the strictest sense of the word. In fact, the greatest peculiarity of the Spanish savings banks stemmed from their legal personality as institutions that lacked alienable property rights (Judgment of the Constitutional Court of Spain, 49/1988, 22 May; Castilla Cubillas, 2006, 27-28).

A third characteristic was the weakness of their mutualistic profile as compared to their European counterparts, as shown by the scarce presence of depositors and employees on their governing bodies. Even profit sharing, which in the 19th century was especially channeled to the less economically well-off sectors of their clientele, was expanded to society as a whole over the course of the 20th century. The instrument used to implement this was the Social Welfare Fund.

With regard to their business model, on the one hand the savings banks maintained their policy of attracting savings deposits from households, and on the other hand, they dedicated the majority of the investments that were not controlled by regulation to mortgage loans, specializing in financing the purchase of homes. This specialization by the savings banks was favored by the lack of any other institutions specialized in this area.

Like the rest of the European savings banks, they developed an active policy of intra-industry cooperation. The Spanish Confederation of Savings Banks also eventually took on the functions of a Central Bank of savings banks, as a wholesaler of retail services. Collaboration among institutions had an enormous effect on the expansion of the financial services offered by the savings banks, and on the notable implementation and development of information and communication technologies (computers and teleprocessing) in the 1960s and 1970s in the savings banks. These characteristics gave them a substantial advantage over the banks, which must be considered in order to understand the expansionism of the savings banks in the 1980s and 1990s. (Comín, 2007; Bátiz-Lazo and Maixé-Altés, 2010).

Nevertheless, despite the multiplicity of regulations in force, the banking system grew and favored the level of financial intermediation, which approximated that in other Western European economies. To use a familiar reference, if we compare the Spanish case in the sixties to the Italian case, we would notice similar levels of interventionism (with different nuances, something similar would happen with other European countries). It was not until the 1970s that Italy embarked on a process of deregulating its financial system. Spain began this process intensively in the 1980s.

3. The banking crisis and banking reform in the early eighties: adapting the three-pillar system in the age of globalization

During the second half of the seventies, profound changes occurred in Spain, and several problematic situations converged:

- Political transition, following the disappearance of the Franco dictatorship;
- An international economic crisis and an industrial crisis in Spain (the latter was related to the old industry and the industrial public sector);
- Economic-financial reform: the so-called "Fuentes-Quintana Reform" of 1977;
- And finally, the banking crisis (1977-1985).

The international crisis was experienced in Spain with characteristics unlike those of other nations, revealing the extreme rigidity of the Spanish economy, which made its reform and profound modernization necessary. At the same time, this was accompanied by political transformations characteristic of a transition process towards democracy.

Therefore, with regard to the topic at hand, the analysis of the banking system must be conducted from the dual perspective of the financial reform of the late seventies and the consequences of the banking crisis of the early eighties. The different reforms would contribute to the modernization of the country, and would serve as the basis for one of the most notable periods of expansion in Spanish history (which would end with the 2007 crisis).

3.1. The banking crisis

In terms of the 3-pillar system, this crisis severely affected banks and credit cooperatives, with the latter being affected in large numbers, even though the funds used for their bailout were much smaller in amount than those used to rescue the banks, given the smaller percentage of credit cooperatives in the banking system as a whole. The savings banks were practically unaffected by the crisis. The result was a situation that was completely asymmetrical to the present crisis.

The crisis that lasted from 1978 to 1985 affected 58 of a total of 110 banks, which represented around 27% of the resources in the sector, 27.7% of the jobs and 24% of the offices. As a whole, it affected small and medium-sized banks. Most of these institutions were destined to merge with other banks; only a few have survived until today (Cuervo, 1988; Fanjul, 1988; Bank of Spain).

The crisis was essentially caused by three factors:

i) Banking expansion. The tepid liberalization begun in the early 1970s favored the expansion of the banking system and increased competition. The consequences were negative for the banking system, since the debt price increased, accentuated by the high interest rates in an inflationary context triggered by the oil crisis. The result was a bloated system with increasing brokerage costs and decreasing profitability.

ii) The role of the banking executives in some cases demonstrated their inexperience and lack of professionalism, as well as imprudent practices that in certain cases were even illegal. This was especially true among the newly-created banks.

iii) Finally, the legal framework and banking oversight were very poorly defined. The subsequent reforms lagged far behind the events, in such a way that the regulator acted by trial and error and with a considerable delay.

The other component of the 3-pillar system that was strongly affected by the crisis was the credit cooperatives. As in the case of the banks, its crisis was owed to the concentration of risks in certain cooperating partners and the lack of professionalism by some managers. This crisis affected some thirty cooperatives that managed 30% of the deposits in the sector (Cuervo, 1988; Palomo, 2000).

Governmental action and that of the financial authority in response to the crisis evolved from a position of sanctions and liquidation, where market sanctions take priority, to bailout positions with intervention by the public sector. Various mechanisms were used to emerge from the crisis. The primary one was the creation of the Deposit Guarantee Funds for Banks and Savings Banks by the Bank of Spain in 1977, which remained in force through successive reforms up to the present crisis. The new institutions guaranteed the reorganization of the affected banks and their awarding at public auction to a banking institution or group that was to complete the reorganization process.

3.2. Consequences of the banking crisis

The main consequence was the polarization of the 3-pillar system with regard to banks and savings banks. As a consequence, three aspects it would be necessary to highlight:

i) The disappearance of industrial banking, banking concentration and the development of commercial banking. Public banks practically disappeared as a consequence of privatization process. During the eighties and nineties, the concentration processes were consolidated that would give way to two large banking groups, Santander Central Hispano and Bilbao Vizcaya Argentaria, and would generalize the retail banking model.

ii) The banks were forced to redefine their networks as the result of the banking reconversion of the early eighties and the successive mergers and acquisitions. Nearly 4,000 offices were closed; at the same time, the large banks considered the national market to be saturated and accelerated their international expansion, especially those banks that would later become BBVA and Banco Santander, along with Banco Popular (Sanchez Peinado, 2001). All of them had prior experience in internationalization in Latin American and Europe. This was a strategy that some of the bank members of the new groups had cautiously initiated in the 1950s and 1960s. At the end of the nineties, Santander, before its merger with Banco Central Hispano, already possessed 31.3% of the banking internationalization (measured as a percentage of foreign assets compared to total assets), while the latter held 11.8%. BBV held 30.6% and Argentaria, its future partner, had 14.6%. Finally, Banco Popular held 6%. In summary, the emergence from the crisis in the early 1980s was decisive for the development of the international strategy of the large Spanish banks.

iii) The savings banks emerged strongly reinforced by this crisis and their evolution was not oblivious to the strategy followed by the banks. For example, in light of a certain retreat by the banks from the national market, the savings banks initiated an offensive that allowed them to double the number of their offices throughout the country before the end of the century (see figure 5).

First of all, they were practically unaffected by the crisis, unlike the banks and credit cooperatives. Secondly, the legislature ratified the banks both legally and operationally (this measure formed part of the Fuentes-Quintana Reform of 1977). This was a substantial measure of the reform that changed the scenario of the Spanish banking. The regulator decided that, in light of the expansion of the Spanish economy, a larger banking system was necessary. There were several options available, but faced with the option of providing incentives for new national capital banks or opening up access to foreign banks, the decision was made to ratify the business model of the savings banks with the commercial banks and promote their concentration and territorial expansion (Lagares, 2002; Pons, 2002). This policy was consummated in 1988 when the opening of branches of savings banks was liberalized throughout Spain.

Ultimately, the case of Spain was a break from one of the historical characteristics of the three-pillar system: the territoriality of the savings banks, as well as a business model firmly rooted in the local economy and a balance between profit-seeking and customer service. However, in spite of the successive reforms, it was not possible to alter the ownership of the savings banks, or to reform their governing bodies to any substantial extent, in spite of having converted them into national institutions with intense participation in the domestic market and in the wholesale credit markets.

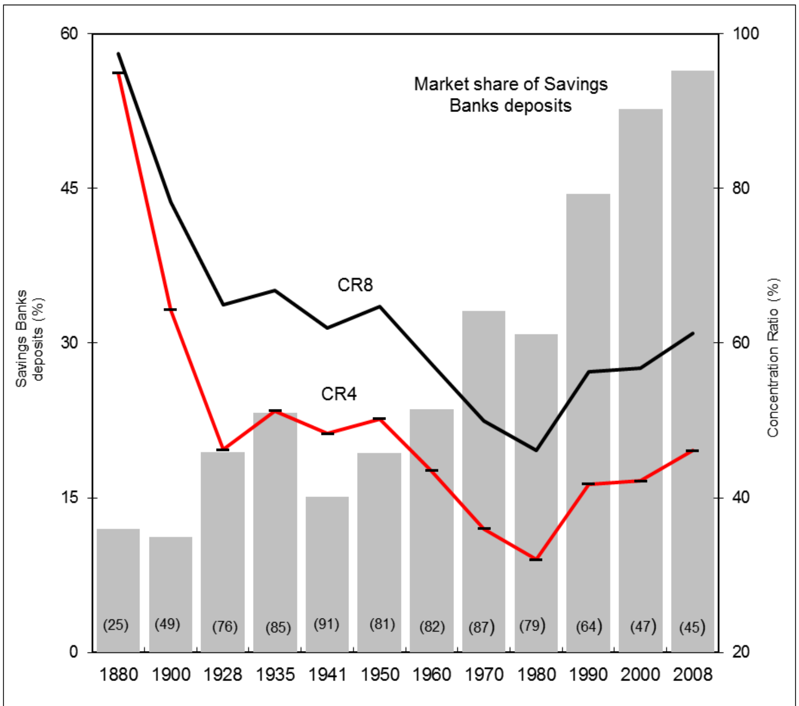

Figure 4. Concentration ratio, market share and number of Spanish savings banks (1880-2008)
Notes: not including State owned Postal Saving Bank. Number of savings banks in every year in brackets. From 1928 number of savings banks affiliated in CECA.
Sources: autor using Spanish Statistical Institute Yearbook, 1880-1935. Annual Reports of Caja Madrid, 1880-1935. Tortella (1974a), 490 and 499; Tortella (1974b), 541-549. Martin Aceña (1985), p. 104. CSB, Banking Balance Sheet, 1940-1962. Statistics of Bank of Spain Newsletter, 1963-2008. Annual Reports and Statistical Yearbooks, CECA.

The panorama of Spanish banking in the late nineties and the early part of the 21st century is reflected in figure 1 and 4. On the one hand, the market shares of the savings banks and the banks converge, while the credit cooperatives lagged far behind the weight of the rest, in spite of having increased their share. On the other hand, the concentration increased in the case of both banks and savings banks, but more so in terms of banks.

4. The 2007 financial crisis: the evidence of the failure of the Spanish 3-pillar system

I think the best way to understand the situation faced by the Spanish banking system today is to examine the panorama that the 2007 crisis exposed and analyze, from a historical perspective, the reasons for the failure of a system, the 3-pillar system, as the result of the collapse of the savings banks. First of all, it is necessary to specify that the recent Spanish banking crisis is first and foremost one of the savings banks. The rest of the banking system, banks and credit cooperatives, have navigated their way through the crisis in line with the rest of Europe. The Spanish credit cooperatives have maintained market shares of around 6% during the years prior to the crisis, and continue to be stable following the crisis. The sector is formed by a total of 78 cooperatives, with savings banks outnumbering the banks in a group that is far from homogeneous. Around 60% of the cooperative banks do not have any branches outside their cities or provinces of origin and two regions (Andalusia and the Basque Country) concentrate 54% of the assets in the sector. Processes began in the nineties that tended to create a cooperative group on a national scale that has not yet been completely consolidated. The business model continues to one of providing financial support to their associates, prioritizing rural and local settings, although there has been a process of diversification and opening up to non-members (UNACC, Unión Nacional de Cooperativas de Crédito; Bank of Spain, BEBE).

Another aspect to highlight is that the savings bank sector has, until recent times, been the most genuine representative of retail banking in Spain. In this sense, I think there are four key factors to emphasize in the savings bank crisis, all related to problems that were not solved in the nineties and at the beginning of the new century, problems that the legislature, along with the managers and those responsible for corporate governance, managed to dodge by hitching onto the economic bonanza of the period.

4.1. Problems with excess capacity

One of the aspects that the crisis has revealed has been the excesses of capacity generated to a large extent by the force of their territorial expansion. Before continuing with this argument, it is necessary to specify that the model of the Spanish banking office networks is characterized by being made up of many small offices, as opposed to the model of a few large offices that is common in the UK, for example. Figure 5 clearly reflects the phenomenon of the de-territorialization of the savings banks, with an accelerated expansionism beyond their traditional areas of influence, starting in the late eighties: This is in contrast to the stabilization of their branch networks in their areas of origin and the opposite strategy followed by the banks, namely, a very cautious policy of reducing branches throughout the country. The opening of new offices was key to gaining market share in one of the countries of the world where the retail banking business grew the most during the decade 1997-2007.

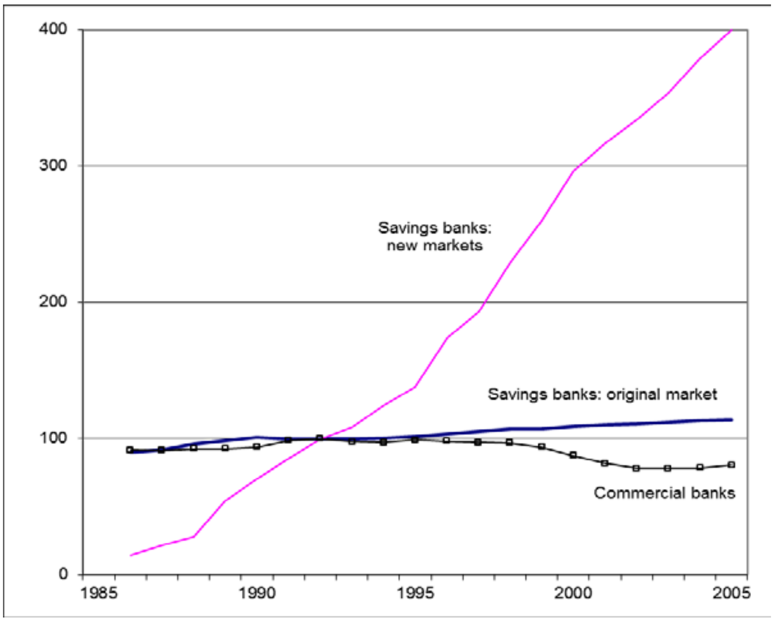

Figure 5. Evolution of savings banks and commercial banks branches, 1986-2005 (Index: 1992 = 100)
Sources: Autor from CECA and BEBE.

In theory, the savings banks that expanded beyond their traditional areas experienced greater productivity gains; in fact, during the nineties, the savings banks were more efficient than the banks, although in the years immediately prior to the crisis, this advantage disappeared. The drastic measures taken after 2008 go to show the sheer magnitude of the crisis: 28 of the 45 savings banks in existence before the crisis were ultimately affected by bailout processes and measures mediated by Brussels and the Bank of Spain. Today it is evident that the reorganization of the Spanish banking system has been aimed at matching the capacity of the sector to the demand, without significantly increasing the market power of the institutions resulting from the concentration processes (Salas and Saurina, 2003; Crespí et al., 2004; Illueca et al., 2009).

4.2. Risk and business model

The origin of the Spanish crisis is not unlike that experienced by other banking systems following the emergence of the North American crisis triggered by high-risk mortgages in the summer of 2007. However, its materialization in Spain was more severe and had worse consequences as the result of the high concentration of real estate assets in the bank balances, and also due to the banking system’s excessive dependence on the financing of the wholesale markets. These circumstances exacerbated the problems of liquidity and solvency.

Once the deregulation process began in the 1980s, the economic situation favored the strong expansion of credit and the growing orientation of the savings banks towards variable income and stakes in companies. This movement was accompanied overwhelmingly by the expansion of mortgage loans in an expansive framework of retail banking.

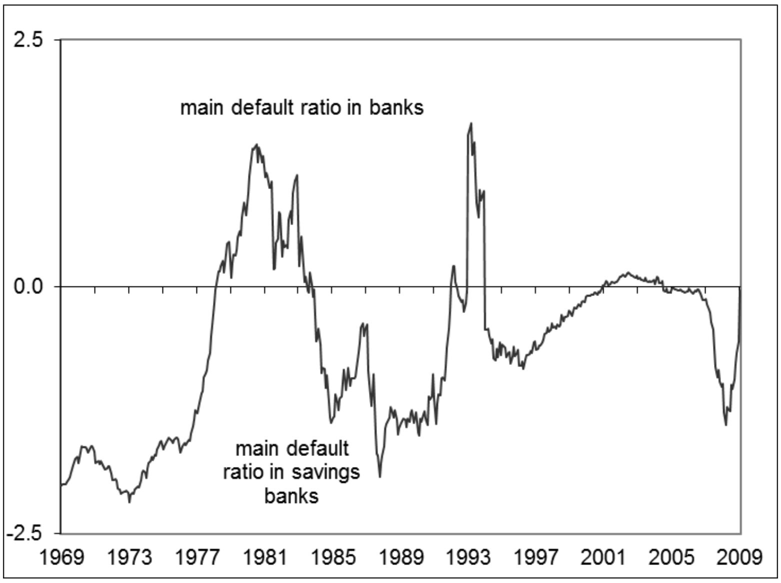

Figure 6. Difference between default ratio in commercial banks and savings banks, 1969-2009 (As a percentage of non-performing loans to other resident sectors).
Source: Bank of Spain

The impact on the credit policy of the savings banks after 1977 was enormous. In 1962, banks made 8.5 times more loans to the private sector than did the savings banks; by 1977 there was less of a difference, with banks multiplying by four the volume of loans made by the savings banks; and finally in 2003, the savings banks exceeded banks in terms of the volume of credit (Bank of Spain, BEBE). The savings banks maintained their specialization in loans to the household sector, small and medium businesses and for the purchase of homes. However, after 2007, the crisis and the bursting of the real-estate bubble radically reduced the expanding credit trend. This drop especially affected the savings banks, due to the volume of their mortgage portfolio and the levels of risk acquired.

Figure 6 shows the large difference between the risks assumed by the banks and the savings banks, from a historical perspective. It represents the difference between the default ratio of credits from banks as compared to those from savings banks. It is evident that the default ratio of the savings banks was always higher than that of the banks. It was only when the system became more competitive that the savings banks adjusted their policies in this regard. However, the recent crisis has once again brought to light the stark problem of loan default for the savings banks.

The crisis also revealed the excess risk derived from their investments in stocks and shares, assets that are strongly affected by stock market declines. In addition, the sovereign debt markets in the Eurozone punished Spanish securities especially harshly, which were held primarily by national banking institutions, among them, the savings banks.

In light of the serious problems of liquidity and solvency experienced by a large number of savings banks, the government was forced to mediate new institutional mechanisms, due to the fact that the Deposit Guarantee Funds created as the result of past crises proved to be insufficient during the latest banking crisis. The instruments were the creation of a new public institution, the Fund for Orderly Bank Restructuring (RD of 26 June 2009) and the help of the EU in the form of the bank bailout, through the Memorandum of understanding on financial sector policy conditionality of 20 July 2012. The result of these measures has been a sharp decrease in the census of the former savings banks, which were deeply and irreversibly affected in terms of their traditional legal configuration. Today, only two small local savings banks remain as savings banks configured according to the historic legal model. The rest (as many as ten) are today banks belonging to banking groups that act as PLCs, although for the moment, a large part of their shares are in the hands of foundations that have survived the savings banks, while the rest have simply wound up in the hands of other banks.

4.3. Capitalization problems

This has undoubtedly been the great problem of these institutions. Their specific legal characteristics complicate the existence of instruments to provide them with capital. Historically, the only way possible has been through founders' funds and subsequent contributions of profits to a reserve fund and a social works fund.

Prior to the deregulating processes of the 1980s, these institutions had not been excessively controlled by the Bank of Spain in terms of compliance with the capital ratios on their balance sheets (Ros Hombravella, 1967). However, capitalization began to be a problem in light of the strong growth of their business, with the support of governmental policy, as explained earlier.

Table 1. A long run approach to weakness of Spanish savings banks capitalization

	Core Equity Capital (thousand €)	Other Suplementary Capital in Savings Banks (as % of core capital)		
		Social Works Fund	Subordinated Debt	Preferred participations
1962	11 323	97.0	-	-
1965	37 233	44.8	-	-
1970	140 547	21.4	-	-
1975	404 794	32.9	-	-
1980	1 739 371	8.7	-	
1985	3 916 844	8.7	-	-
1990	8 465 869	9.8	-	-
1993	11 454 437	8.4	12.3	-
1994	12 599 654	7.9	11.3	-
1995	13 875 368	7.5	10.6	-
1996	15 853 179	7.1	10.3	-
1997	18 203 526	6.6	9.3	-
1998	20 255 548	6.4	12.9	-
1999	22 511 254	6.2	17.8	-
2000	25 103 838	6.0	21.1	-
2001	27 664 240	5.9	27.8	22.2
2002	30 340 200	5.6	32.6	21.3
2003	32 955 892	5.5	36.3	21.0
2004	36 041 092	5.3	39.2	20.7
2005	43 688 352	4.9	41.0	19.3
2006	49 444 416	4.9	45.2	18.6
2007	59 207 096	4.8	41.1	16.3
2008	63 855 968	4.7	50.3	15.3
2009	64 697 996	5.0	64.8	26.5

Sources: Bank of Spain and CECA.

The new capital requirements that the Bank of Spain began to demand in the mid-1980s contributed to the savings banks restricting their provisions to social projects in favor of increasing their reserves and capital base for over than a decade (the 13/1985

Act regulated subordinated debt issues as other equity instruments available for savings banks). However, table 1 reflects the problems historically posed by the capitalization of savings banks, and which have been brought forward by the debate, to which the lawmakers have provided no response in terms of the need to make changes in the legal nature of the savings banks in order to obtain additional capital funds that ensured the solvency of their expanding business framework. In practice, as the table shows, an attempt was made to solve this by increasing the subordinate financing and in recent times, by issuing the so-called preferential shares. In any case, neither the lawmakers nor the savings banks themselves were able to find a way out of a problem that became insurmountable once the crisis began (see Cals, 2005, 202; Valero et al. 2003, 266).

4.4. Corporate governance problems

The problems with capitalization that we have just referred to lead us to the problems with corporate governance experienced by the savings banks. In fact, the introduction of new capital instruments in the area of savings banks would have meant adding a new type of market valuation that would have moderated their management. During this latter stage in which the savings banks expanded their business, they were not subject to any type of indicator of market discipline that could have served as an evaluation of the management by their executives.

The theoretical bases for approaching the problem of the governance of the savings banks are enshrouded in enormous difficulty. Agency problems and the focus on "value for the shareholder" had little place in companies that lacked either (Grandori, 2004; Rajan and Zingales, 1988, 2000). Without a doubt, the focus on the stakeholders is more intriguing, although it lacks sufficient theoretical development. In any case, and without going into too much detail, the particular configuration of the governing bodies of the savings banks underwent changes following the Savings Banks Governing Bodies Act of 1985, which ended the traditional self-governance of the savings banks based their own statutes. This legislation was then altered by the legislation of the regional governments and by national legislation in 2002 (the Basel Committee on Banking Supervision is turning his attention to corporate governance issues, see BCBS, 2010). None of this was able to prevent the politicization of the governing bodies of the savings banks and other collateral effects that introduced spurious elements in their management and governance. In fact, the savings banks that have survived until now, albeit in the format of a bank, are those that maintained an equilibrium in their governing bodies, de-politicizing them in favor or a weighted distribution among all the different stakeholders.

5. What lessons can we learn from the Spanish case, and what are the conclusions with respect the future of retail banking?

One of the first consequences of the crisis and banking reorganization in Spain was the appearance of a new competitive framework, in which the variety (or biodiversity) of the system has been drastically reduced, as has the number of participants. As a result, the new environment unquestionably leads all those institutions with a retail business vocation to reconsider their strategies.

According to these premises, several observations can be made:

1- The first conclusion that can be drawn is that the process of the disappearance of the 3-pillar system in Spain is an operation with no return. At this time, the credit cooperatives are the only institutions that maintain their clearly defined territorial roots and a business model closely linked to local interests. However, we mustn't forget that their weight in the Spanish banking market as a whole is minor.

2. A second aspect to consider is that the Spanish banking industry presently finds itself in a new scenario that does not differ in too many ways from that of the rest of Europe; i.e., past experience leads the sector to strive for added value and the diversification of risk. It seems relevant that in some areas of the industry and in academia, there is a discussion of getting "back to the basics," but according to the new perspectives, as the result of the new scenario presented by regulatory demands, the new competitive framework and the need to manage risk.

3- A third aspect to indicate, and one that is the subject of debate within the sector, concerns the search for new niche businesses, directly related to obtaining added value. It seems reasonable to argue that the banking industry should maintain its connections to global markets (a source of liquidity and capital), but it should also delve deeper into local fields of business, ones that may be less visible, but that will enable it to diversify risks and gain access to SMEs and entrepreneurs and develop products that allow it to offer new services or transform others provided on a trial basis prior the crisis (in the field of insurance and payment services).

In summary, one of the ways proposed to develop new revenue would be to expand the relationship with customers and increase service-related revenue. The latter is a business segment in which the Spanish savings banks have always lagged behind the banks, and far behind the European average; it is thus suggested to the new banks as an interesting field of action.

4- Nonetheless, some contradictions appear when it comes to redefining the business model for retail banking. This emphasis on the business scale at a local level and a deepening of customer relations is exactly what has gradually disappeared from the strategic horizon of Spanish savings banks since the 1980s. However, it was in this same area where the savings banks have historically leveraged a comparative advantage and, to a certain extent, where some have been able to maintain this aspect as a distinguishing mark up to now. Therefore, to a large extent, it remains to be seen whether the banks resulting from the savings banks maintain or are capable of maintaining, some of the idiosyncrasies that had characterized them for decades.

There are also some critical arguments that can be gleaned from the Spanish crisis. I will discuss two of them below.

For the moment, the loss of diversity and concentration is not leading to improvements in the financing conditions for households and businesses, especially SMEs. This is an especially serious phenomenon that could extend throughout southern Europe and which would appear to contradict the present and future strategies of retail banking.

Another topic that has not received a lot of attention is the evolution of the phenomenon of financial exclusion in relation to the banking crisis, both in Spain and in the rest of Europe. This phenomenon is affecting increasingly more important segments of the population, and precisely those sectors in a position of greatest risk. In Spain, the accelerated process of dismantling bank offices is resulting in areas on the urban fringe, and particularly rural areas, being left out when it comes to ordinary financial services in a way that is more and more conspicuous. It is precisely these geographic areas and these segments of the population that have historically been subject to the action of certain components of the 3-pillar system. It therefore remains to be seen what new equilibriums will be developed in the new banking scenario that has resulted from the crisis.

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