

Banking is changing

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A working paper by the Foundation for Financial Studies titled "The change in the business model of banking" was published recently. It includes the opinions expressed during a prior debate by experts in the sector who agreed on the substance: various trends are forcing banking to change and only those banks that understand this reality will be able to adapt to the new era. Banks are like giraffes, that need to stretch their neck to reach the highest branches of trees, and these trees are becoming increasingly taller.

The world is changing, and the new trends include a slow recovery of the economies of developed countries (which have not yet gained momentum eight years after the start of the crisis), the unprecedented landslide of changes in financial regulation and the increasing competition by new digital operators. As a result of these and other trends, the profitability of banks has been seriously affected and is still far from returning to pre-crisis levels.

With respect to the regulatory reform, the experts agreed that it was necessary, but also that there is a risk of over-reacting, and that stricter regulation can make it difficult to come out of the crisis. In addition, the fact that the changes have not yet been completed raises a regulatory uncertainty that hinders banking activity, and the implementation has not always been the same in the different countries. Regulators face the arduous task of finding some kind of balance between financial stability (with stricter regulation) and efficiency (with laxer regulation), and this is particularly important in this still incipient economic recovery. Another trend today is the emergence of the so-called digital banking. The new digital competitors are not surprisingly entering the parts of the value chain that offer higher expected profitability. In the future, the impact could be much greater if the large digital operators enter the financial services sector. However, traditional banks have a competitive edge they need to continue to exploit, such as a direct, closer and specialized relationship with the customer.

What will the speed of arrival of digital banking depend on? On many factors, particularly regulation. Until now regulation has protected the banks that attract deposits to avoid bank failures due to their negative consequences for the economies, but this is changing. In any event, it is important to apply the same regulation to the same products or services and to the same level of risk. Therefore, there should not be a different set of regulations for digital competitors, they should be subject to the same regulation as all the operators active in each market. And at the same time, regulation should allow for efficiency and innovation. In the future, banking can opt for two main options: trying to become digital operators by developing these capabilities internally, which would probably be unattainable, or acquire or establish alliances with the new operators, which would enable banks to learn from them in terms of nimbleness and transparency.

Another point addressed in the report is the credit market, since the revitalization of the Spanish banking sector should be reflected in the enhancement of credit to the private sector. Generally speaking, the situation of new credit in Spain seems to be improving, on both the supply and demand sides, and in particular in the household and SME sectors. At any rate, the pre-crisis levels of indebtedness will not be repeated, so in the future Spanish banks should not be so focused on growing by expanding their balance sheets as they used to be, but on providing services that consume little capital.

In this new environment, who will survive? Possibly the banks that best adapt to this new reality, but not necessarily the largest ones. It would be desirable for a sounder, more nimble and more transparent banking to emerge, where the operators that survive are those that are in a better position to meet the changing demands of customers.

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