Banking once again focuses on retail

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The banking sector is undergoing a significant transformation. In Spain, the old system of 45 savings banks has been reduced to just ten regular banks. In Europe, the number of credit institutions has gone down from 8,600 in 2008 to 6,500 at the start of 2017.

The recession and the vast amounts of public money used to bail out and shore up the banking system since 2008 have led to a complete rethink of the regulatory framework. With the introduction of banking union, new supervisory frameworks and other legislative reforms, European banks are operating within a context that has very little to do with the system that was in place just a few years ago.

Finally, the new financial environment to emerge after the recession has led to a reassessment of risk by investors. This can be seen, for example, in the extremely low interest rates at present, meagre levels of bank profitability and inter-bank markets that seem reluctant to return to normal operation despite the extraordinary measures adopted by the European Central Bank.

A study published this week by the BBVA Research analyses the impact that this changing panorama is having on the banking model in a number of European countries, and, in particular, in the retail banking sector. It emerged that there is still a clear division between Eastern European countries, whose banking system only dates back to the fall of communism, and those in Western Europe, with a banking tradition that is much longer. In the case of the former, banks are very much orientated toward retail financial services, with over 50% of the balance made up of family and business loans and deposits, while in Western Europe the retail segment accounts for just 30%. Spain finds itself in the middle. Despite being the home of two major international banks, their business model features a much smaller investment banking component than do their equivalents in France, Britain or Germany.

In recent years, we have seen a clear tendency toward retail banking activities across Europe. Markets and regulators alike are increasingly appreciating the stability offered by family and business deposits with regard to other sources of financing used by banks. In the eurozone for example, the relative importance of deposits has increased from 22% of the balance in 2008 to almost 30% in 2016. This trend can be seen throughout the European Union, with increases of up to 10% or even 20% in most countries, including those where retail deposits already represented a substantial part of the balance. In Spain, retail deposits have grown from 26% of the balance pre-recession to 37% in 2016.

The proportion of retail credit has also increased on average for the eurozone, albeit more circumspectly, increasing from 29% of the balance in 2008 to a recent level of 32%. We have also seen some adjustments in countries such as Spain and Ireland, where excessive indebtedness had been financed by turning to Europe's wholesale banking market.

To summarise then, markets and regulators have reacted to the recession by reassessing the risks incurred by various players, including Europe's banks, adopting new legislative measures to strengthen the stability of the financial system. Consequently, banks have responded by increasing levels of capital and retail credit, as well as focusing on more traditional areas of business. As well as this changing economic and regulatory context, banks are having to face a more important challenge. The increasing digitalisation of consumers and the economy is accelerating the entry of new operators (the so-called "FinTechs") who offer innovative financial and payment services. The digital transformation is evident in an unstoppable process which is going to define the position and survival of traditional banks in a future which we are already experiencing on a daily basis.

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