

# The new regulatory environment: a global retail bank view

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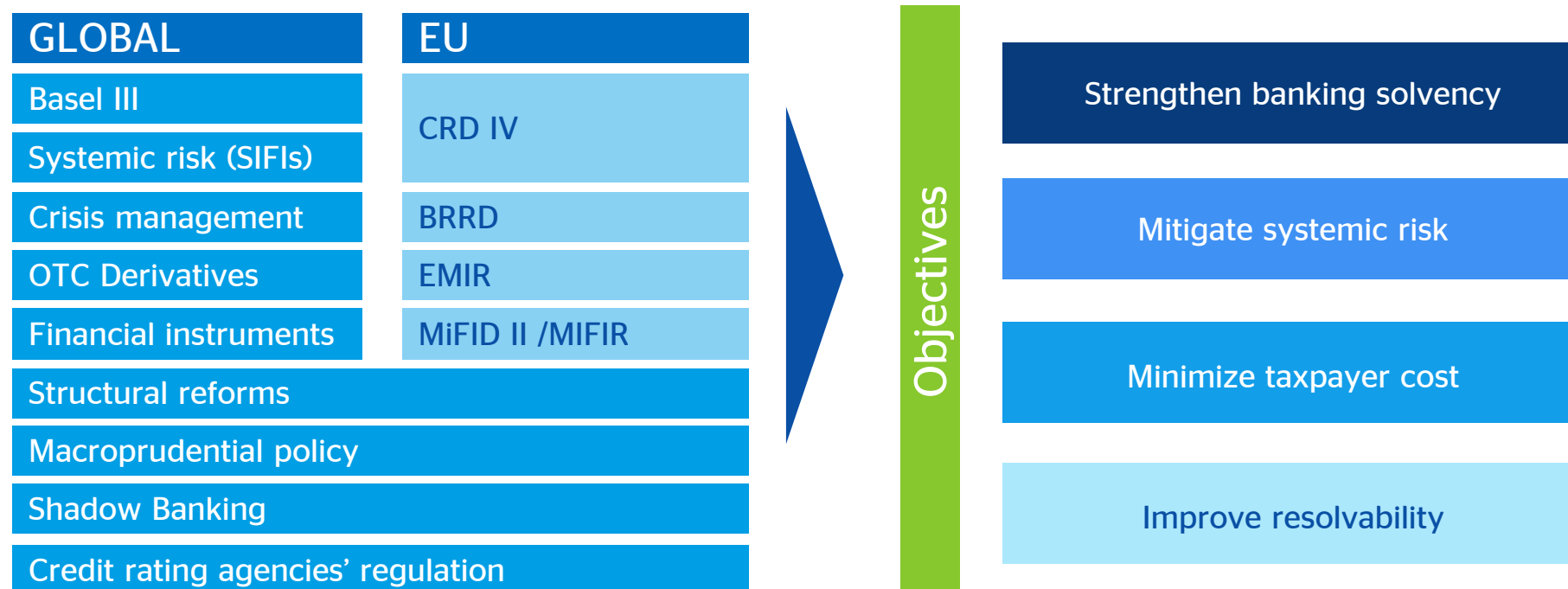
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## Section 1

# Profound regulatory reform as a response to the crisis

Numerous lines of reform with 4 main objectives



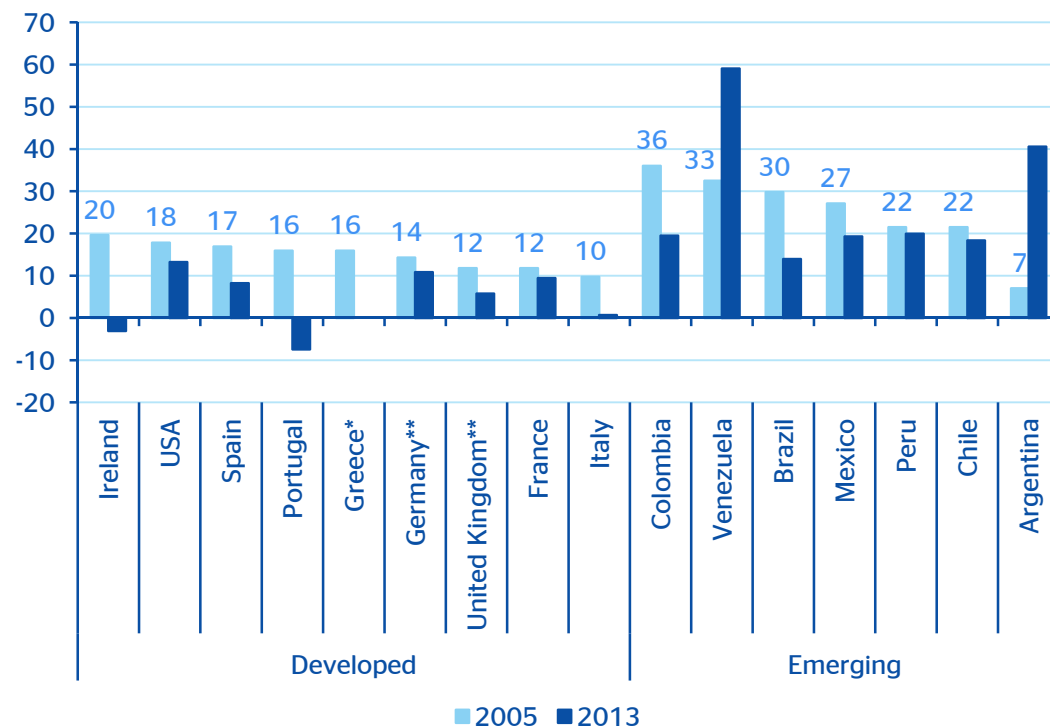
- It is difficult to assess the overall impact of all these measures
- Important to ensure the consistency of reforms in different jurisdictions
- Ring fencing trend challenging for global banks, less so for decentralized models

## Section 1

# The new environment of lower profitability

## Return on Equity, RoE

Source: BBVA Research based on IMF



\*n.a. data \*\*2012 data

It will be difficult to regain pre-crisis levels of profitability, especially in terms of ROE (ROA maybe more)

Profitability of the banking business: challenging in developed countries; diversification to EMEs a strength

Greater dispersion between entities (end of public implicit subsidy)

Anticipate changes in the industry will be key to a successful business model: technology is crucial



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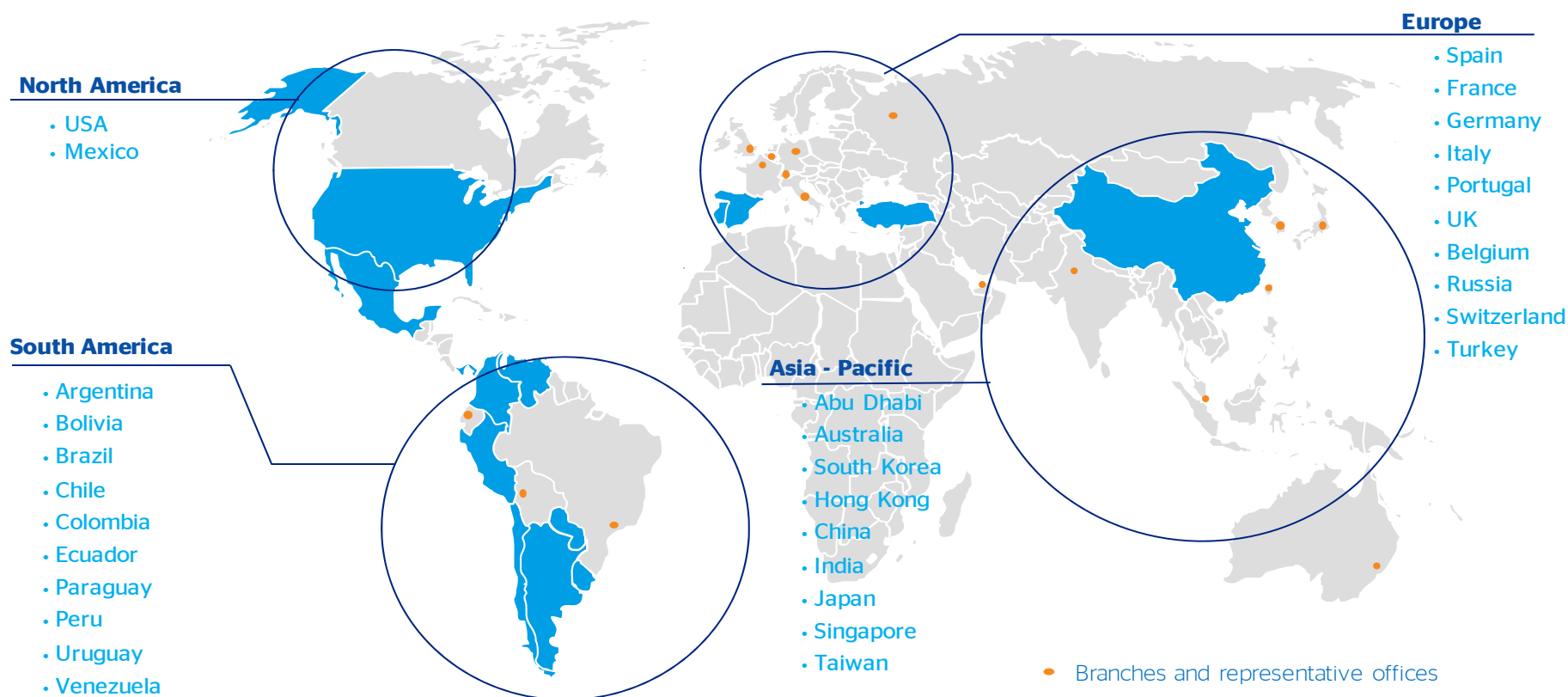
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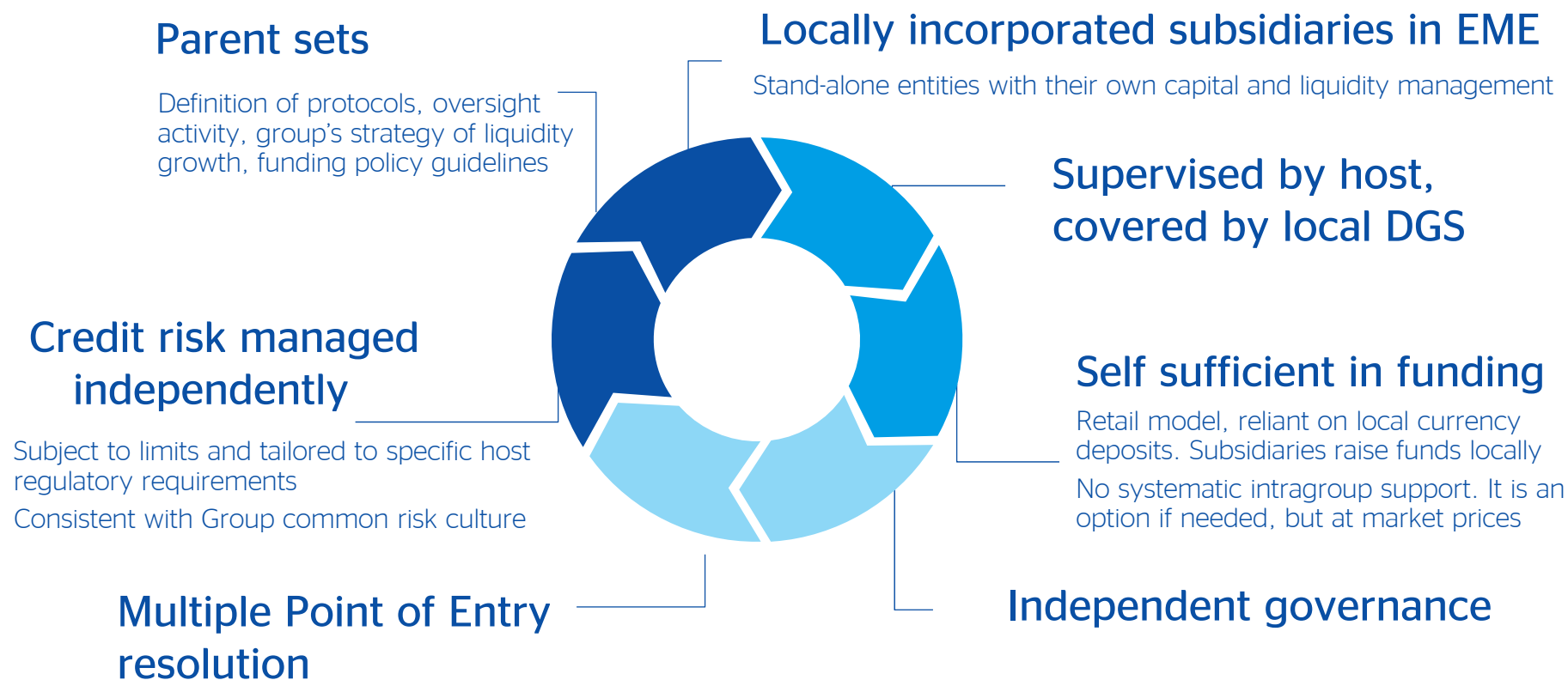
## Section 2

BBVA is a global multinational group with strong presence in emerging markets



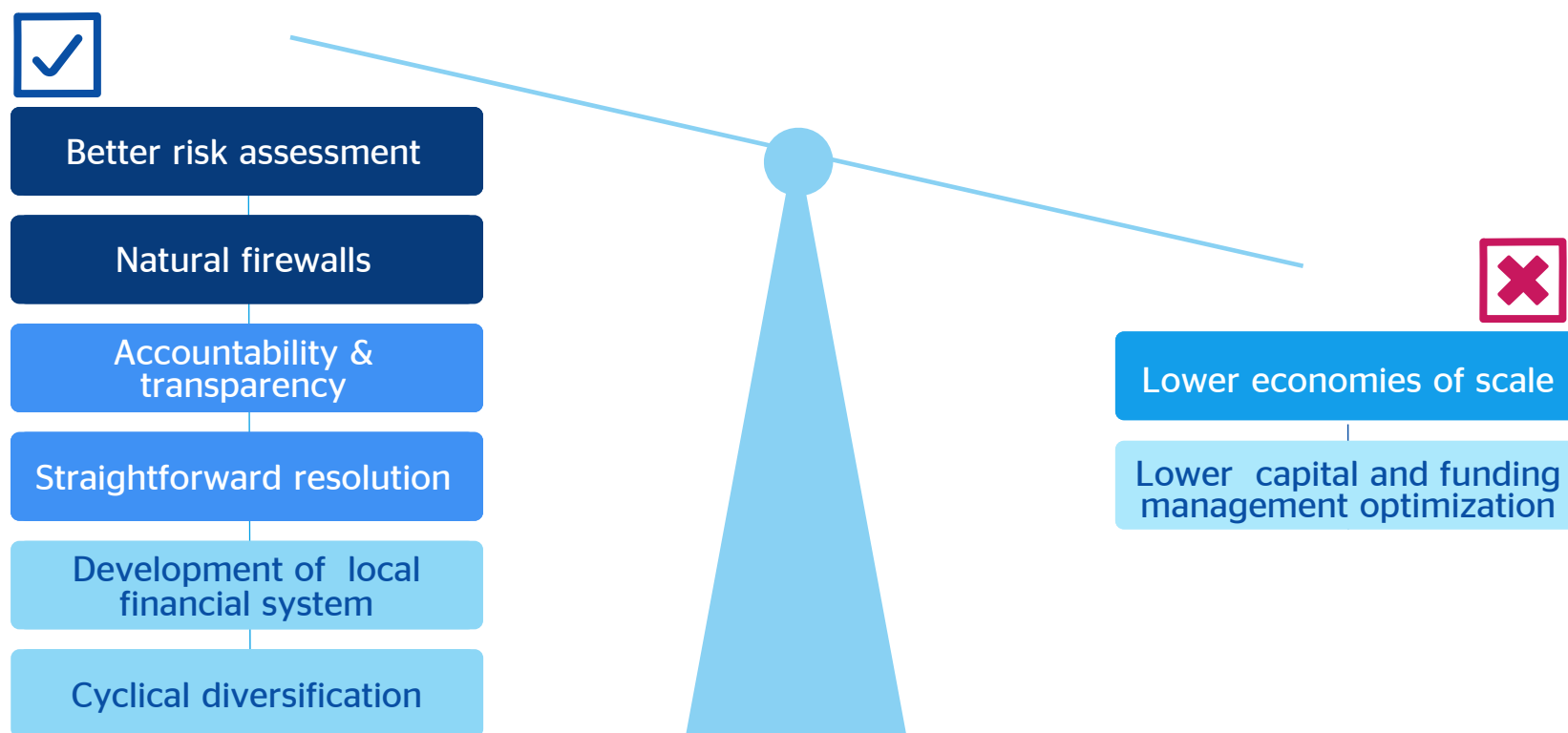
## Section 2

## The Decentralised Subsidiary Model



## Section 2

## Pros &amp; Cons of Decentralised Subsidiary Model

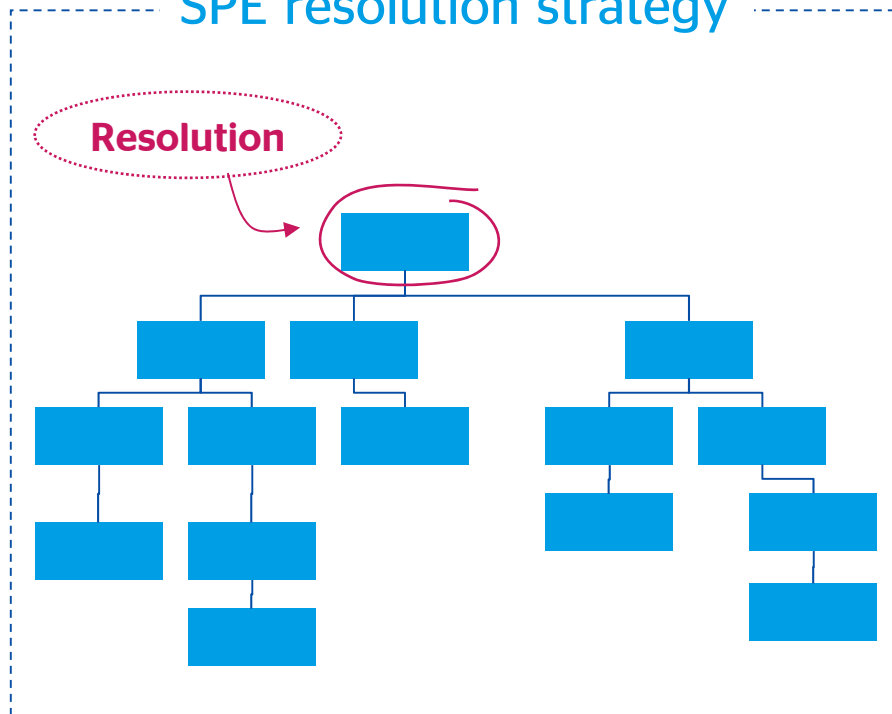




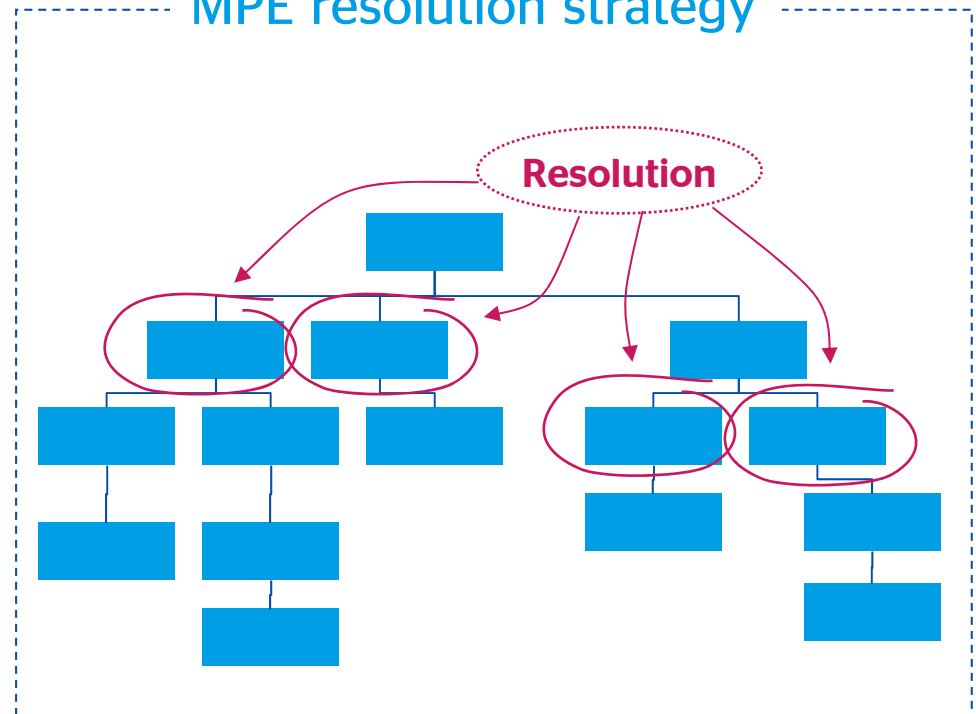
## Section 2

# Decentralised Model: consistent with MPE resolution

SPE resolution strategy



MPE resolution strategy



## Section 2

# Strong resilience and less contagion

## Experiences with crisis in host and home countries

Firewalls  
between  
different parts of  
the group work  
in both  
directions

Crisis in host country:  
Argentina 2001

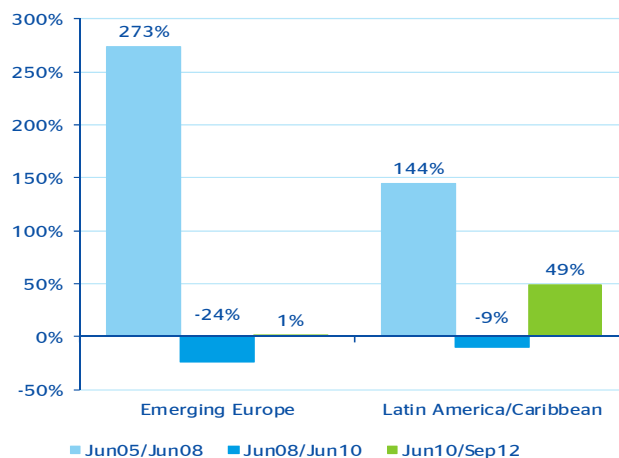
Spanish banks stayed in Argentina, but had the option to leave without much contagion to parent or other subs

Crisis in home country:  
Eurozone crisis  
2012-13

No evidence of contagion of liquidity problems in home to hosts

### Changes in external loans of BIS-reporting banks to the bank sector

Source: BBVA Research based on BIS International Banking Statistics (Table 7)



*\*Latam:* Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Venezuela

*\*\*Emerging Europe:* Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania

Latam: smaller bubble and bust than Emerging Europe. Stronger recovery



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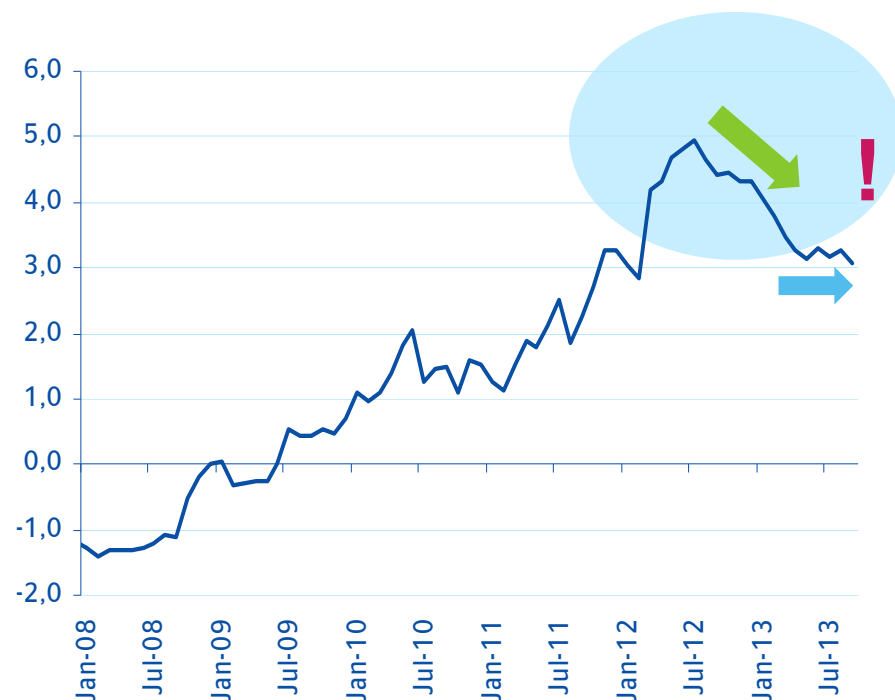
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# Fragmentation is incompatible with the Euro

## Composite measure of EZ financial fragmentation\*

Source: BBVA Research and Bloomberg



## A banking union is needed to:

Break the loop between sovereigns and banks

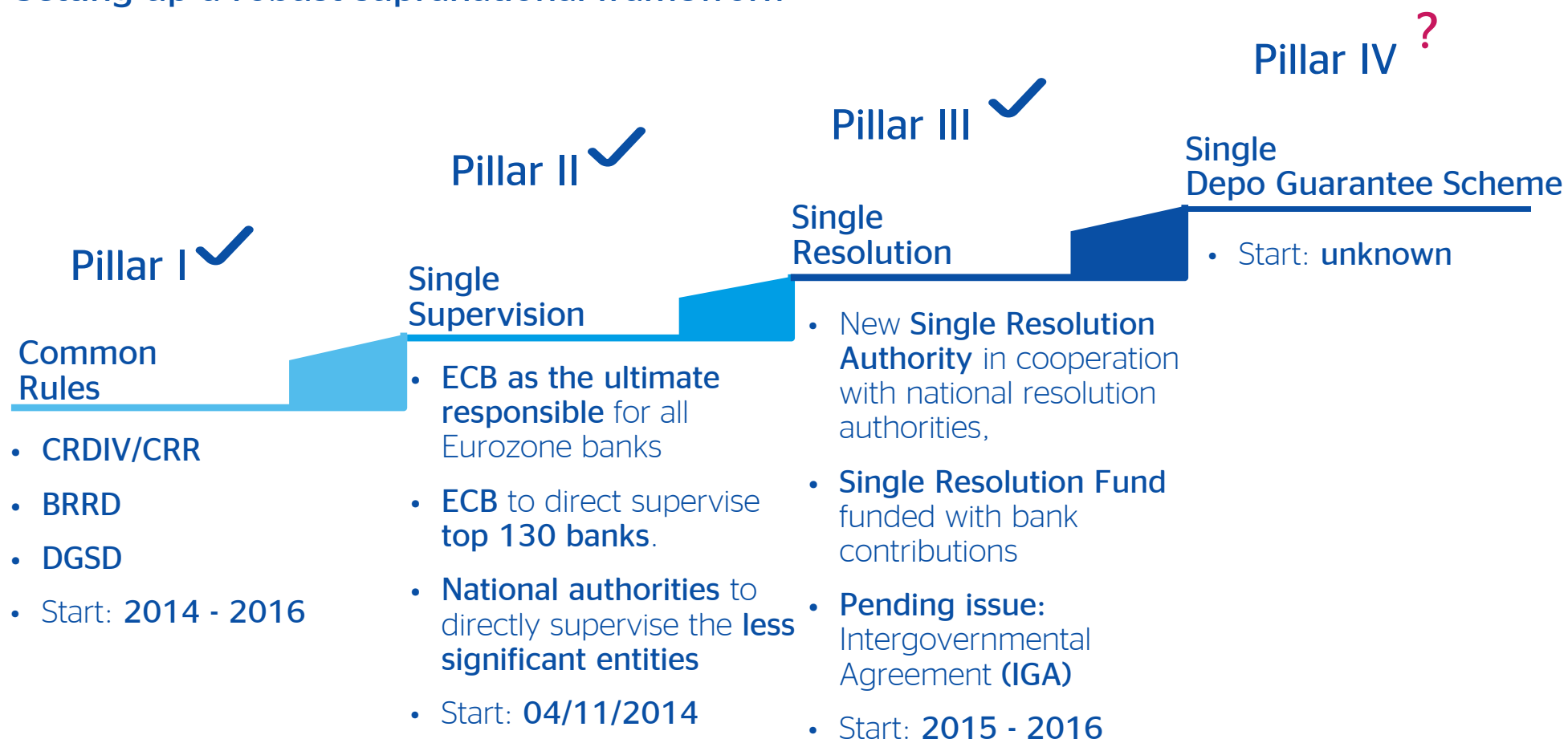
Strengthen the Monetary Union by reinforcing the institutional architecture

Restore the monetary policy transmission channel

## Section 3

## Banking union at a glance

## Setting up a robust supranational framework



## Section 3

## Banking union

## It will take time to break the vicious circle

Banking union has contained the fragmentation process...

...but further progress towards deeper economic, fiscal and political union is needed

Banking union is designed to solve the problems of the future...

... but finding a definitive solution to the legacy problems is a key prerequisite: AQR, ST

The SSM is a game changer for supervisory culture and practice in Europe...

... that needs to take into consideration the different business models of European banks

The agreement on a Single Resolution Fund is an important step forward...

...but the uncertainty on the common public backstop must be dispelled



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## Section 4

# Structural reforms

## Activities separation is not a good idea

### Design issues

- Risk of higher concentration of risky activities in fewer entities
- Affects activities that are essential for well functioning of markets

### New barriers to universal banking

- Increased costs for banks. Higher cost of capital and funding, reduced economies of scale
- More difficult access and increased costs of financial services for clients
- Exacerbate regulatory arbitrage (Shadow Banking)

### Cross-border impacts

- Extraterritorial effects
- Alters competition

### Regulatory inconsistencies

- Fragmentation of the financial markets.
- Business models more difficult to supervise and resolve by authorities
- Cross-border activities more complicated for banks

Not the best solution. Little additional value in terms of financial stability but additional burdens on the financial industry with dampening effects on the real sector



## Section 4

# Banking future, digital banking

Bank must learn to use the information to improve their profitability

New players

There are already new competitors and not only in payments but also in the core banking business

Important to maintain a level playing field between banks and new entrants

Regulation should avoid fostering "shadow banking"

Technology: the key to the future financial system

Customer should benefit from disruptive, low cost technology

A lever for the necessary efficiency gains in banks

Facilitates financial inclusion in emerging countries

# Final remarks

1. Banks are under the burden of increasingly heavy regulation. Ring fencing trend is worrying, especially for global banks
2. Profitability prospects are poor, especially in developed countries
3. Decentralized global banks are better adapted to a world of ring fencing
4. BBVA: decentralized globally, centralized in Europe
5. Banking Union: great progress has been made, further work is needed
6. Technology is key for the efficiency gains necessary to offset regulatory pressure

# Thanks!

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