Dispatches from the hothouse

Lessons from the world’s most competitive banking market

Between a range of arid hills and the encroaching metropolis of Madrid stands an oasis with hundreds of ancient olive trees dotted all over it. A cluster of bright, modern buildings sits alongside a green golf course in a valley. Overlooking all this is a building one floor taller than the others, with a bright silver dome under which the chairman has his office. This serene campus is home to Santander, and in some ways the Googleplex of banking. Two huge data centres—low and built like nuclear-bomb shelters—provide some of the computer networks to support a far-flung banking empire (“Brazil’s on this one, Britain on the other,” says a guide). The idea behind them is that competitive advantage in banking comes from rigorously standardising computer systems and procedures around the world and relentlessly driving down costs. “Our business model is extremely consistent everywhere,” says Mr Sáenz, Santander’s boss. “We have the same systems everywhere. Exactly the same systems.”

Spain’s two biggest banks, Santander and BBVA, have been expanding their retail operations abroad rapidly in recent decades, and have managed to do so profitably even though their own country’s economy is melting down around them. Santander, which a few decades ago was just a small regional bank, now has substantial businesses in ten countries around the world. Almost 90% of its profits are made outside Spain. BBVA, its biggest Spanish rival, has also expanded vigorously outside Spain. Between them the two banks manage more than 20,000 bank branches, most of them outside Spain. “Spain’s biggest export is the management of bank branches,” quips one Spanish banker.

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Spain is arguably the world’s most competitive banking market. Thanks to its fiercely independent regions, it has a remarkable number of banks for its size. Even more remarkable is the number of branches, some 43,000, which works out at one branch for every 1,000 people, or about six times the number in Britain and more than twice as many as in France and America. “With too many players you end up overbanked because every bank wants to be everywhere,” says Pedro Rodeia at McKinsey. This keen competition pushed some smaller banks to lend recklessly, causing a banking crisis that blew up the economy. Yet it also forced banks to squeeze out costs, which at Santander and BBVA account for less than 50 cents of every euro they earn, despite their huge branch networks. Most large retail banks in other countries would be happy with anything below 60 cents.

Spanish banks embraced modernisation relatively late. Having been trapped in a bubble for many years during the fascist dictatorship, once they were freed they were able to leapfrog rivals in more developed markets. The most important innovation was the rapid and almost universal adoption by bank customers of electronic bill payments. Spain's banks have a huge advantage in not having to process cheques or handle transactions in their branches. They have invested diligently in installing the latest and most effective computer systems, making their banks enviably efficient. Their rapid growth and the economic troubles at home raise some question marks. Even so, they have developed an innovative model of banking that is being exported around the world. It may also hold some clues about what banks elsewhere may soon be doing.

Joined-up banking

In a branch in downtown Madrid of Banesto, a bank that is owned by Santander, a branch manager pulls up a series of screens on her computer. One shows all the balances of a customer at the branch. At a glance she can see whether the customer is profitable, which of her staff is responsible for looking after him and what other banking services he might need. To non-bankers, it seems inconceivable that banks may not have a complete overview of the business they are doing with each of their customers. Yet only a handful of the world's big banks are able to see instantly that a customer asking for a credit card may already have a savings account with them.

Spain's banks go a step further. With another few clicks of a mouse, the branch manager can see whether the branch itself is profitable. She assembles her staff each morning to discuss which customers may need to be contacted, perhaps because they have missed a loan repayment or received an unusually large deposit.

The Spanish model is not just about using technology to drive down costs and push up employees' productivity. It also allows very small branches to offer sophisticated advice and customer service.

Across town, Bankinter, a small but tech-savvy bank, takes this idea a step further. Just inside the bank's entrance is a large computer screen with a camera and a phone. If customers need specialist advice on a mortgage, say, and no one can see them, they are connected by video call with a free adviser in another branch. "As customers use more channels they become more loyal, buy more products and are more satisfied—and that makes good business," notes Accenture, a consulting firm. "With a cross-sell ratio ahead of many of their Spanish peers, Bankinter's customer relationships are also more profitable."

The final element of the Spanish banks' formula is to concentrate on markets where they can achieve a significant share. They would rather be deep in a few markets than thinly spread over many. BBVA, for instance, tried its hand in Brazil but found it could not reach critical mass. Santander sold its first investments in the United States to raise the capital to bulk up in Brazil, although it has since returned. The Spanish model has been as much about banks being local in their main markets as about being international. Yet technology is changing the economies of scale involved in banking, particularly as banks try to profit from the vast amounts of data they collect on their customers.

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