

Ana Botín's speech in the XI International Banking Conference

Good morning.

It is a pleasure to have you here at the Santander International Banking Conference.

Before starting, please allow me to welcome Ms. Nadia Calviño, Minister of Economic Affairs, Industry and Competitiveness of Spain, that will join me opening this conference in a few minutes.

I would also like to thank other participants for being with us today:

- Bernardo Gonzalez Rosas, Chairman of the Mexican National Banking and Securities Commission
- Burkhard Balz, Board member from Bundesbank
- Roberto Viola and Daniel Calleja, European Commission General Directors
- Huw van Steenis, Senior Adviser to the Governor of the Bank of England
- David Wright, Chair of Eurofi
- Among other very distinguished speakers

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I The Future is not what it used to be

Good morning. It is a pleasure to have you here at the Santander International Banking Conference. This year, we will talk about Responsible banking in an age of disruption.

We have talked about disruption, and its driver - the Internet and smartphone adoption- for years. Yet, this event feels important, novel even, rather than another stale repeat of familiar themes.

That is because the future is not what it used to be.

It is fair to say that worrying economic, political, and social events are taking place. The world is changing faster every day, and not in ways we predicted even 5 years ago.

We used to think that technology helped democratisation. Wired Magazine just a few weeks ago claimed there is evidence that technology does the opposite. The misuse of artificial intelligence could lead to centralization.

In the past, Wired has evangelised techno-utopianism as much as anybody. Its patron saint was media theorist Marshall McLuhan. He coined the phrase “the global village”.

Technology and the Internet would usher in a new era of personal freedom, creativity and growth. It would spell the end of large, controlling top-down institutions.

Today these utopian visions seem at odds with reality and with our sense of what makes sense for a more inclusive society. Views of the world that were too simplistic.

After the end of the Cold War, conventional wisdom had it that liberal democracy was destined to spread across the planet, and that digital technology would be the wind at its back. This was called the End of History. Now a very different end seems to be on the cards – this time on steroids.

There is a lot of uncertainty, anxiety and anger about how the costs and benefits of today's dramatic changes are being shared. And with good cause.

In a time of pessimism, those of us who believe that a better future is possible have a responsibility not just to make ourselves heard, but to act.

II. Responsible banking

And that brings to me to those two words – responsible banking.

Responsibility is the bedrock of trust. But today, the pressure to be responsible has never been greater.

The Great Recession. Globalisation. Digital technology. All this has economic and social disruption. Meanwhile, consumers and citizens have more power than ever to mobilize and communicate.

Our response is to focus even more on two things:

To be responsible towards the individuals with whom we interact – our people, customers, shareholders and individual citizens. Making terms simple to understand. Being transparent on pricing and scope of services. Treating them personally. Being fair. Simple Personal Fair – the three words that sum up how we at Santander aspire to operate. Get this right, and you build loyalty. Get it wrong, for example, if you lose data, or sell products irresponsibly, you lose loyalty in an instant. Tackling this challenge – which we call the challenge of the new business environment – is key.

Then there is our responsibility to society as a whole – how we use our financial capabilities to help address the big challenges we face. We can play a major role in helping ensure growth is both inclusive and sustainable. Inclusive – by tackling financial exclusion, helping entrepreneurs start companies and create jobs, and of course helping people get the education and training they need, with our Universities programme. Sustainable – by financing renewables, supporting smart infrastructure in the developing world, as well as agrotech and green tech. Sustainable by actively contributing to a more balanced and inclusive economic and social system.

By doing this, we fulfil our purpose – to help people and businesses from the micro credit needs of the smallest “self-employed and individuals, “to the biggest corporations.

Achieving this requires leadership to implement a strong culture, robust governance, and clear metrics – some of the topics that George Bridges will cover in his panel later.

III Technology matters

And make no mistake, digital technology makes it possible for banks to achieve this mission of being more responsible in ways we could not just 10 years ago.

Just last month Openbank, Santander's Internet-only bank launched Robo-advisor. It brings the kind of investment advice and service, formerly only available to high net worth customers, to anybody with a smartphone, at any time or place - and even for investing small amounts.

In Brazil and Mexico we are offering microcredits to the unbanked. The spread of smartphones, the interactivity of applications and the capacity of the cloud have helped make these life-changing projects possible. The uptake has been so large, and the impact so significant, that our Brazilian operations have been recognised by the United Nations.

Of course, banks are no strangers to technology. Even today retail banks spend around three times as much on IT security as non-financial institutions of comparable size.

But today, digital transformation is critical as customers, with the equivalent of a 1995 supercomputer in their pockets, now expect much more from banks than ever before.

Banks need to be safe, efficient and responsible, be able to offer personalized products and services, smart and relevant interactions, and to do so at the time that's most convenient to them and at low cost. And the list goes on...

Therefore, the Responsible Bank of the XXI Century must be at the cutting edge of Technology, to survive.

No surprise then that both Responsibility and Technology are foundation stones of Santander's strategy.

We aim to be the responsible and open digital platform for financial services.

The task of fostering responsible banking cannot however be solved by a single bank. Culture develops out of norms, and norms are built on a foundation of rules and laws. We are working with others, here and globally, to drive this culture. And Santander will be one of the signatories to the new UN Principles on Responsible Banking, a draft of which will be published this month.

IV Disruption is not what it used to be

And that brings me to the subject of responsible regulation.

We used to think that new-born companies would revolutionise a sector. Now some of the so-called disrupters are the largest companies in the world.

Silicon Valley is producing fewer start-ups than before.

If they survive and show promise, they are either bought and integrated into platforms, or some features are copied and the company effectively disappears.

Disruption today is not what it used to be.

The reason? Global platform companies.

These companies have become so big for three reasons, digital enables economies of scale – network effects; new users increase the value of the network - and the importance of data coupled with AI and machine learning supercharges data's power. It is reported that one of the 5 largest technology companies collects enough data on a single average user to fill 23,000 A4 pages in 15 days.

These benefits compound with interest. The more data you gather, the better the systems you can build; and better systems allow you to collect more data.

V Levelling the playing field

Why is this a business model we should understand better? Well, here's a story.

Admiral is an insurance company in the UK. It designed a system to analyse the data generated by users of a big global platform. The purpose: To offer a better price to some of its customers.

Two hours before the service was due to go live, the big global platform forced the insurance company to stop the launch. The reason? That global platform said that protecting the privacy of its users was of the "utmost importance". So far so good? Well, except one year later we learned that the same platform was using its customers' data without permission.

Worse still, if this platform was Santander, and Admiral an aggregator of financial information, then under current EU regulations in force, we could not say no.

That is because under EU's Payment Service Directive 2, there is an asymmetrical obligation for banks, if customers agree to it, to provide payment providers and aggregators data about customers. Yet even now there is no reciprocal obligation, for non-banks including global platforms to share customer data with third parties.

In other words, non-banks enjoy a clear competitive advantage if they can combine a customer's banking data with the non-banking information they hold about the customer.

There are other regulations that only apply to banks but not our competitors who do the same activity. There are several EU regulatory asymmetries related to independent financial advice, capital requirements and of course, fiscal laws.

For example, under present regulation the initial capital requirement for non-bank entities in the payments market is EUR 50,000. Banks are competing with start-ups and global platforms in the payments business with radically different rules on capital, safety requirements, compliance or use of data.

And just as with regulation, so with tax: we have XX century tax laws for a digital age. The result? An ever-increasing sector of the economy is not paying a fair share of tax. Says the Financial Times: "Multinationals in general have perfected the art of locating — in terms of law and accounting — their tax bases in low-tax jurisdictions. But global digital businesses can produce their services in a single location and sell to the global market from one place with minimal local infrastructure.

VI A call to action

What does this all have to do with responsibility? Well, while businesses need to play their part, we need to rethink the role of both the private and public sectors, the responsibility of all of us, in the age of disruption. In fact, we need to decide what kind of an age of disruption we want to have. Specifically, what is the governance we should have to counterbalance the concentration of power and the uneven distribution of benefits.

We need to have clear and effective rules that assure us all - consumers and companies - that Europe really is a unique digital space that truly fosters innovation in which rights and obligations as well as the unintended and external effects of the changes are shared fairly.

People assume that their rights are the same regardless of the channel or provider they have chosen. This is what our customers think. But it is not what the law says. Legislation - be it consumer protection, fiscal or regulatory - still turns its back on an obvious fact of the new economy: the borders between sectors and markets have been diluted.

And faced with this irrefutable evidence, what we need is for the laws and regulations to be neutral and to treat companies in the same way when they do the same kind of business, regardless of the sector to which they are nominally assigned by research analysts,

We need rules that foster real "disruptive innovation", and that requires amongst other things understanding monopolistic business models. The classic consequence of insufficient competition is the extraction of "economic rent".

The control of critical infrastructures and technologies gives Platforms access to people's lives and a near unassailable position. This position is not sustainable if, we really want a fair and innovative digital society.

The best guarantee for the innovation that promotes competition, sustainable growth, and welfare for the majority is to regulate businesses on the basis of what businesses do, not who they are, and ensure transparency and vibrant competition, so that society as a whole benefits.

This includes data regulation, to make sure that companies use data responsibly. The right to security and privacy of data is a fundamental right in the new digital society.

A growing literature argues that global platforms have become so fundamental to our lives, that should any of them suddenly collapse it could have systemic consequences. That is even if they are not involved in providing financial services.

Finally, we need laws that ensure everybody pays their fair share in tax so that each and every business, irrespective of our zip code, industry code, contribute proportionally and where the profit is made to the overall social needs of our societies so we can in a proportionate way – [all businesses digital and traditional] – strengthen the institutions of government we depend upon.

These four aspects – responsible business, fair competition and regulation, the right to privacy and fair taxation - should be indispensable elements of any European strategy.

The bugs in the rules of the pre-internet world are not susceptible to being patched. What is required for inclusive and sustainable growth, fairness and innovation in the Digital Era is that we rethink the very operating system of our societies, which necessarily includes laws and regulation.

Having new rules that reconcile the Digital Society with our traditional values of cohesion, solidarity, and progress is both important and urgent.

It is a conversation that companies, authorities, academia and social agents cannot continue postponing.

And I invite all of you to join it.

Thank you