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"The relationship with bank customers"

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Good morning. It is a pleasure to open this 13th edition of the Banking Industry Meeting and I thank the organisers, and IESE in particular, for their kind invitation to join this eminent gathering today.

The information disseminated by the organisers states, by way of introduction to the programme for today's conference, that "*following an intense shake-up of the industry, the banking sector must address challenges and problems that place its operations at a critical juncture.*"

This has, indeed, been the central tenet of my public addresses throughout the year.

In previous speeches I have stressed that the banking business is facing far-reaching changes whose implications are still difficult to foresee. And I have paid particular attention to what I consider are the main challenges the industry must address. I have shared my thoughts on the challenges posed to banking at the current juncture as regards: (i) maintaining appropriate profitability levels to ensure the viability of banks in the medium and long term; (ii) adapting to new and demanding regulations in response to the financial crisis; (iii) technological developments and the so-called fintech firms; and (iv) restoring the customer's confidence.

I have emphasised that banks must and can prepare for facing and responding to these challenges, underscoring the fact that the industry, following the progress achieved in terms of solvency and cleaning up balance sheets in recent years, is today better placed and has greater resilience with which to tackle these challenges.

Among the possible courses of action, I have advocated, inter alia, moving for greater efficiency gains and continuing with the orderly correction of excess capacity, and giving priority to bank customer care.

And it is precisely the relationship with bank customers on which I wish to focus my speech today. I believe this focus sits well with the title of this Meeting, namely "*Competitive Banking in a New Society*". I consider that, amid the major changes in which banking is immersed, the relationship with customers will be key. It is always key, since customers are a bank's most important and most fragile asset. But in the future I believe it will be even more relevant.

And a fundamental factor in defining what the relationship with bank customers in the future will be is technology.

Mindful of this, the Banco de España is stepping up the efforts it devotes both to monitoring technological innovation and to anticipating its potential consequences. Through a cross-departmental working structure, various matters are being addressed in order to contribute to constructing an informed opinion and helping define the central bank's strategic positioning. Subjects under analysis are, for instance, the implications of the provisions of the new Directive on payment services, known as PSD2, whose partial transposition in Spain is imminent, under the Government's Annual Regulatory Plan, and to which I shall shortly refer. And there are also other topical matters, such as distributed ledger technology, "cloud" computing and the phenomenon of sovereign digital currencies.

Against this backdrop, the aim of my address is to offer some observations as to how the new technologies are changing the traditional bank-customer relationship, and to highlight the need for banks and customers to responsibly manage this new scenario. Likewise, I wish to stress the importance of financial education in this new scenario. Customers have more options, but also more responsibility, and it is essential they should be aware of this.

Returning to the origins of the concern for the rights of bank customers.

To set these observations in perspective, we might recall that concern in Spain to safeguard customer rights arose in the 1980s, as a consequence of the liberalisation the industry underwent and which enshrined freedom of contract – of interest rates and commissions – at the core of its workings.

Accompanying this process, legislators adopted a series of measures aimed at boosting competition among banks, including most notably the enhanced comparative information with which banks must provide their customers, so that they may know the content of their rights and obligations before and once they have given their consent. However, this concern for customer rights came into being and developed in a context of maximum customer confidence towards banks and, most importantly, towards bank employees, which, in short, led to a high degree of customer loyalty to banks.

During the 1990s and in the first half of the last decade such loyalty was negatively and slowly impacted by growing competition and the subsequent need to improve net interest margins. And the crisis unleashed as from 2007 saw the culmination of this deterioration and led to a significant loss of confidence by customers in banks, giving rise to a new scenario.

Against this background of public mistrust in banks, and the weakening of the aforementioned degree of loyalty, the new technologies add additional challenges for the industry when it comes to tending to their relationship with customers. They alter consumer demands, with consumers now seeking flexible, immediate and personalised interaction anywhere and at any time. They also lower the entry barriers to the business, as the extensive networks of branches to capture and retain customers that characterised traditional banking no longer seem necessary.

I consider that, as regards technological innovation, it is more fitting for the moment to talk about evolution rather than revolution, and that not all technological initiatives exert the same influence on banking business and nor do they necessarily constitute projects that enter into direct competition with banks. But there are indeed technological innovations that are acting as a catalyst for firms that may come to compete with banks in specific segments.

And one segment where this may have a greater impact, and specifically alter the bank-customer relationship, is that of payment services.

Bank customers and technology: the payment services segment.

Allow me to illustrate the changes emerging in this segment with a brief reference to the new Directive on payment services, known as PSD2, as I previously mentioned.

One of the most notable aspects of this Directive is that it definitively institutionalises the activity of the so-called third-party service providers, or TPP. The Directive acknowledges the right of holders of a payment account to expressly authorise a third-party entity, provided it is duly authorised, to order payments on their behalf and/or to consult certain information associated with this account. In the first instance, we are talking about what are known as “payment initiation service providers”, while in the second case they are called “account information service providers”.

The latter offer users the possibility of gaining consolidated knowledge of the situation of the payment accounts the users have with different entities, thereby helping them with their financial planning. Conversely, payment initiation services arise as an alternative to the use of cards, for the payment of purchases made in e-commerce environments. They are consequently characterised by providing payment beneficiaries with the security that payment has been initiated correctly, acting as a spur for expediting the delivery of the good or service.

With the emergence of TPP, PSD2 makes it possible to dissociate administrative tasks – proper to the opening, maintenance and management of an account – from those others which generate revenues for banks thanks to the existence of those accounts. In this way the traditional role of banking as a single, or main, payment services provider is diluted. TPP are now legally authorised to gain access to banking infrastructure at the request of their customers, which threatens to weaken both customers’ links with banks and the stability of transactional revenues.

One of the ways in which the banking industry could react to this challenge would be through the development of *Application Programming Interfaces* (API), open for massive use by third parties. These technical means, which allow resources to be shared among different environments, are a clear option for the future. Not only would controlled access to banking environments thus be promoted, in line with the more technical provisions implementing PSD2, but also, insofar as API are designed flexibly, they are set to open a window of opportunity for the obtaining of new revenues, since they enable a broad range of value-added services – e.g. those linked to the remote identification of customers – to be deployed. Moreover, like TPP, banks could make use of these same API to provide services equivalent to those of these new competitors, differentiating themselves and offering other, higher-value-added services.

In this new scenario, I wish to share a thought with the customers. As I noted at the start of my address, I believe it is important that they should be mindful that, although technological developments open up a greater range of options for them in terms of conducting their transactions and financial operations, they also demand of them greater responsibility and involvement. It is necessary that customers fully understand the potential consequences of their choices and, in turn, take all due precautions so as not to be the victim of illicit actions, using in this connection the control tools offered to them by their banks.

Customers must, for instance, strive to understand the true scope of the authorisation being granted to a TPP and accept, should they consider it appropriate, the possible commercial use of their information beyond the provision of a specific payment service. Evidently, this will only be the case if the TPP wishes to seize the opportunity to obtain broader authorisation than is provided for under PSD2, but this is not a remote scenario given the growing value of data in a digitalised society.

The fact that, owing to a lack of knowledge or of due attention, any user may ultimately authorise access to a volume of personal information which they would really have preferred to keep private is one of the concerns arising from the development of the new technologies, and it highlights the importance of assigning resources to familiarising customers with the existence of these new risks.

Another concern is the area relating to cybernetic threats and fraud. In this respect, PSD2 has paid special attention to the risks involved in carrying out electronic payment operations in general and, in particular, to those conducted remotely, the aim being to provide users with an environment of maximum safety when they opt to perform these operations.

By way of illustration, PSD2 urges that measures be adopted that reduce the incidence of fraud and that ensure the continuity of payment services with a view to shoring up users' ultimate confidence. Such measures include most notably the obligation to periodically assess the effectiveness of specific risk control and mitigation measures and the duty to notify the authorities of the serious security incidents that arise.

Furthermore, PSD2 provides for the general application of strong customer authentication mechanisms, whether in payment or consultation operations. I refer here to the promotion of practices such as the sending of a single-use code through a mobile phone in order to be able to complete an on-line purchase transaction. While it is true that some of these measures are nothing new for many current payment services providers, their systematisation and level of granularity do indeed have a deep-seated impact in that they make it necessary for adjustments to be made to pre-existing uses.

The deployment of strong authentication procedures adds greater operational complexity to the classical means of interaction with customers and here, once again, given that the situation may entail a certain level of initial confusion, it would be advisable to develop educational and assistance programmes that help accommodate users to the new reality.

Bank customers and financial education

I cannot stress this point enough. Financial and digital literacy are basic, crucial factors for the efficient use of financial technology and for lessening the level of risk implicit in its use.

Involuntary authorisation for access to personal information or fraud, to which I have just referred, are merely some of the examples of this implicit risk. Other examples are: (i) the offering of complex, opaque projects that are difficult to understand and which may be wrapped up in a user-friendly fashion for the public at large through applications (apps or similar); (ii) the disclosure of relevant information, pre-contractual or contractual alike, through smart phones or tablets, in which the size of the screen and the immediacy of acceptance limit customers' capacity to know what they are really agreeing to; (iii) limitations in obtaining direct and personalised advice from a qualified adviser; (iv) discrimination linked to the use of macro-data, in the sense that the use and knowledge of personal data by services providers might result in discriminatory practices against specific groups of consumers, normally those who are most vulnerable; and (v) the risk of financial exclusion linked to the lack of digital skills.

And in this context, there is clearly a need to improve financial education and promote the development of digital skills among the public at large.

The main challenge bank customers face is entering into financial contracts. If they are aware of the importance of the commitment they assume in signing each contract – and by "signing" we also mean ticking the box that reads "I accept the terms and conditions of the contract" in digitally executed transactions – they will appreciate the importance of being fully aware of this commitment before signing, and of knowing what demands they can make during the life of the operation and which unavoidable obligations they may have during that time.

Banks benefit from having properly prepared customers, avoiding the unwanted consequences of poorly conceived consent that ultimately gives rise to legal risks and which may seriously compromise their reputation. For this reason banks, while improving the information they give to their customers, should promote customer awareness, integrating financial education not only into their corporate social accountability programmes but also into their product design and governance strategies.

However, this responsibility for financial education does not fall exclusively or chiefly on banks. It must extend to other sectors of society, including, inter alia, third persons whose mission is to ensure the proper understanding and scope of contractual terms. And, above all and primarily, financial education must be an essential part of individual learning from a very early age.

The Banco de España has dedicated notable efforts to promoting financial education for many years. Along with the CNMV (National Securities Market Commission), it has since 2008 promoted the Financial Education Plan, to which numerous institutions and public and private associations covering a wide spectrum of social sensibilities have adhered. The objective of the Plan is to enhance citizens' capacity to take well-founded financial decisions and, in this respect, it aims to reach out to the entire population and have a durable presence over time.

As part of this Plan, and with the focus on the young, the Financial Education Programme for Schools – an initiative supported by the Ministry of Education, Culture and Sport within the framework of the collaboration agreement signed in 2009 with the Banco de España and the CNMV – has recently been launched for another year. This Programme, currently in its sixth edition, seeks to bring basic knowledge of personal finances to the classroom so as to prepare pupils to meet the basic challenges in the financial area that they will face throughout their lives. Key concepts such as saving, income, personal budgeting, what things cost, quality of life and responsible consumption are all developed in the Programme. In the past five years around 300,000 pupils have benefited from it.

More generally and in order to reach out to all citizens, another notable component of the Financial Education Plan is the website *finanzasparatodos,* which has been open to the public since May 2010. It contains informative materials which straightforwardly offer basic guidelines as to how to reach the end of the month, how to invest and how to manage one's finances at different stages in life, or which explain the characteristics of specific, basic bank products and services.

I trust that, through the actions promoted by the Financial Education Plan, of which the foregoing are just two examples, the public and private authorities and the financial supervisors are contributing to enhancing Spanish citizens' financial culture, both for their own benefit and for the sustainability of the financial system.

Conclusions

I shall conclude as I began.

The customer is at the core. This is an idea that is repeated in various fora in which technological innovation in the provision of financial services and the new challenges facing banking are addressed.

Transparency, market conduct and financial education are priority areas of attention that are gaining in prominence both on the European agenda and at the heart of the respective national authorities. And more importantly and, probably, what is more effective in the medium and long term, they are taking root in the very organisation of banks.

Developing a responsible banking model, with suitably designed products, distributed in the appropriate channel, to the ideal customer, and having regard to individual needs, should today be a priority objective for all: European authorities, national authorities and the banking industry.

Thank you for your attention.