Chapter 4

Fragility of the Spanish Banking System and Financial Exclusion: Lessons Learned From the Global Crisis and New Challenges for the 21st Century Banking Sector

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ABSTRACT

Since the outbreak of the financial crisis in 2007, Spain entered a period of wide-ranging economic and social changes. Spanish financial institutions have been implicated in the real-estate bubble, and they were highly exposed to uncertainty and the steady decline of real estate businesses. As a result, the Spanish banking system has undergone a major transformation process. It has been necessary to restructure many institutions, so today the sector is smaller, and it has been forced to rethink its business strategy to survive. The social cost of all these changes has been particularly high, and financial exclusion has increased in Spain from the beginning of the crisis. This chapter shows the changes that have taken place in the Spanish banking system from the beginning of the crisis, the social implications ensued, and the challenges currently faced by the new banking industry that has emerged since the crisis.

INTRODUCTION

There is wide consensus in literature about the general idea that if citizens access basic financial services like opening a bank account, borrowing money or making and receiving transfers, then they are better able to save money, start and expand businesses, invest in education, deal with unforeseen needs or irregular incomes, avoid exploitative financing, etc. (Beck, Demirgüç-Kunt, & Levine, 2005; Tuesta,
Sorensen, Haring, & Cámara, 2015). For these reasons, the fight against Financial Exclusion (FE) is one of the priority challenges within the agendas of governments, financial authorities, and international institutions and forums such as the World Bank, the International Monetary Fund (IMF), the OECD, the G-20 group (Cámara & Tuesta, 2014; Sarma & Pais, 2011; Demirgüç-Kunt & Klapper, 2013; Cull, Ehrbeck, & Holle, 2014). In the academic world there is also desire to study FE and Financial Inclusion (FI). As a result, over the last decade, efforts have increasingly concentrated on assessing what sort of situations the different countries are in and how to improve their FI (Beck & Levine, 2004; Levine, 2005; Beck, Demirgüç-Kunt, & Martínez Peria, 2007; Donou-Adonsou & Sylwester, 2016; Haan & Sturm, 2017). In this sense, one recent achievement is that the World Bank has been building a database of global financial inclusion (Global Findex) since the year 2011, which includes indicators comparable throughout the world, those indicators being related to the way in which people save, apply for loans or make payments. To date, according to the data collected in the Global Findex (Demirgüç-Kunt, Klapper, Singer, & Van Oudheusden, 2015), some 2 billion working-age adults globally do not use formal financial services, and these people are mostly concentrated in countries with lower-middle and lower per capita incomes. This data could lead us to think that the most developed countries, those with the highest per capita incomes and highest percentages of banked people, do not suffer from FE; nevertheless, in these countries, there are also sectors of the population excluded for a wide variety of reasons, e. g. people with low or not stable incomes experiencing difficulty in raising finance, ethnic minority communities that live at the margins of formal financial services, unemployed people, persons with a history of bad debt, people that do not feel confident about bank services, etc.

This chapter aims to analyze how inclusive the Spanish financial system is and how it has developed in recent years. The case of the Spanish financial system has special interest because it has undergone a major transformation since the beginning of the financial crisis in the year 2008 (one of the biggest in Europe and in the world) and, as a result, the Spanish society had to pay a very high price in economic and social terms. In this research, emphasis is placed on the social consequences, with special reference to FI and the reasons that have caused significant retrogression in inclusiveness. For this purpose the chapter is structured as follows:

- Background section defines FI and reference is made to several indicators used for assessing it, such as the number of banked people or the number of bank branches per 1000 population. Reference is also made to the relationship between finance, growth, and inequality.
- The main focus of the chapter section shows the organizational structure of the Spanish banking system and describes how it has changed over the last 20 years, explaining the causes and consequences of the transformation experienced. Additionally, some indicators used in literature to assess FI are presented, although they are not enough depiction of the real social and economic situation. This is why the solutions and recommendations focus on other indicators for the purpose of showing a comprehensive picture of FI in Spain.
- Finally, some future research directions are presented alongside the challenges that the Spanish banking system have to overcome to deal with the economic and social requirements of the 21st century financial sector.