



Finance and insurance

«Going international to grow and diversify risk»

XAVIER SALVADOR

Joan Maria Nin, a banker who combines the theoretical view of business with thirty years of practical knowledge, is together with president Isidre Fainé the pilot chosen to drive “la Caixa” towards consolidation as a leading financial institution in the Spanish market.

Once this goal is reached, new horizons need to be sought abroad. Internationalisation? Yes. In times of crisis? As well. How? With local partners; going with Catalan companies undergoing the same processes; through Criteria, a tool created specifically to go abroad; and finally, with lots of patience.

In this interview, the director general of “la Caixa” tackles open questions on regulation of the global banking market, the internationalisation process at the group, its lights and shadows, success and operations still waiting to become so.



An item playing in favour of internationalisation in all industries is saturation of the own market. Is the Spanish finance market “la Caixa” operates in saturated?

We started internationalisation for several reasons. It's a well-thought decision within a programme of the 2007-2010 Strategic Plan, an extraordinarily well formulated plan. One point in this plan is internationalisation. And the thought we derive from the process is the following: in 2007 we were about to consolidate a leading position in Spain in terms of retail, of market share. We wanted to be leaders, the first in quota (as has eventually been achieved in the last months) and grow between 2007 and 2009. Now we can say we are leaders in the Spanish market as to the number of customers, deposited salaries and pensions, point of sales terminals (POS) for retailers, credit and debit cards, microbusiness cross-sales, retail trade, etc.

«Concentrating all the risk on one single economy is something to avoid.»

But when you reach these positions you can still go much further, can't you?

Yes, you can, but you also need to look after the international area. We are leaders in retail banking in Spain, number two in personal banking and third in corporate banking. Can we go further? Yes, we can. Our market share in Catalonia and the Balearic Islands are not the average we have in the remaining Spanish market. Our share in Andalusia is higher than in Castile, and in the Canary Islands higher than in Extremadura. I mean that there are differences according to the region. As a retail bank, we are basically in market shares between 10 and 17%.

This is much higher in Catalonia, isn't it?

In theory, we could reach similar or equivalent shares outside Catalonia to those we have in Catalonia and the Balearic Islands with time. But there is a double phenomenon. First, it's time. How much time would it take to reach this position? Time would be long as the

competitors are improving increasingly. Besides, investment to be done in areas dominated by other very good competitors is very high, although we know, and we've proven it, that in these three years we've been growing considerably outside Catalonia. Where “la Caixa” grows most in absolute and relative terms is Madrid. Nevertheless, we think that due to growth leveraging, it's good to internationalise. It's a market reason. But there are others. There is also a risk analysis phenomenon. It's not only about growing more, but we need to diversify risk due to our size. So for an organisation as big as “la Caixa”, concentrating all the risk on one single economy is something to avoid. There is a part of our capital that needs to go abroad due to growth leveraging and risk diversification.

And there is still a third reason: service to our customers. With the share we've achieved and big progress made in the business and corporate banking market, our obligation is to be consistent with this model and customer segment and serve it. The reward is clear: we're growing in foreign trade, in specific business applications, and we have market shares between 10 and 20% in countries we've entered.

It is difficult to understand how “la Caixa” makes business with Criteria bank shares. What are the shares in Grupo Financiero Inbursa or the Bank of East Asia giving to “la Caixa”? Is this expansion through dividends?

Well, it all depends on the way you see it. Relations are not one-sided, they're multiple and complex. If you have a strong correspondent business – the most invisible of all – with well-prepared people and set relations with thousands of banks in the world, there are contacts, you give them business and they give you business. Only with that you are facilitating a business regarding internationalisation and knowledge of these banks.

OK, but that's not retail.

It is, if what is behind are SMEs or companies. When you have a customer in Girona exporting oil and wine to Japan and have Sumitomo and

Mizuho banks as correspondents there, you have a relation with these banks through a shared loan even if you're not there, which is the function of correspondent banking. When the customer in Girona exports, he's immediately sure he will get the money. We guarantee this to him. So here lies an invisible part we have pushed a lot, which is very international. And we also do retail through representative offices. This is the part rather focused to customers. Once we open an office in Algeria or Dubai, we immediately get in touch with local banks and Spanish companies settled in the country, we know companies working with Spanish companies, and in the end of the day, the share in terms of channelling foreign trade and investment increases automatically.

«One single branch is not enough in retail. Either you open 500 or you're lost. Trickle down doesn't work at international level.»

But is the market share rising here or there in the local market?

In transactions with both countries. We are having roughly 15% of commercial operations with China, 20% with Algeria, 12% with India and nearly 15% with Turkey. Representative offices are an investment beyond distance relations with local banks. You are physically present, you welcome your customers, you see them there, you attend them when they're travelling... If you do so, you bind your customers more and seize operations.

Then there is a third level, which are branches. We opened some in Poland, Romania and Morocco. We're the first Spanish financial institution having opened a branch in these three countries. So when we open a branch we have a vantage position and are also the only ones. These operative units however have a more complex balance sheet, as opening branches has allowed us to develop an IT platform to work outside our natural market. This has been an investment. We had to send people and train people from other countries, but this allowed us to give credits and seize deposits there. But



▲ «Internationalisation is a way of serving our customers.»

A manager with an interest in poetry

When talking, Joan Maria Nin (Barcelona, 1953) emphasises. He explains what is occurring in the global finance system as if he was reciting a poem, with clear emphasis and diction. Perhaps his poetic side has much to do with his taste for poetry, which he exerts as a board member of the **Federico García Lorca Foundation**. A convinced internationalist, Mr Nin completed his education at the **London School of Economics** and is now a board member of the **Spain-United States Council Foundation**.

After thirty years in the Spanish banking branch, Mr Nin went through all situations. He started his professional career at the Banco Hispano Americano, where in 1980 he was already heading the international department at the age of 27. After later mergers, he became regional manager of Banco Central Hispano in Catalonia and two years later head of commercial banking. This was the same task Emilio Botín gave him when Banco Santander took over Central Hispano in a new merger that led to the current **Santander group**. At this bank, Mr Nin headed the corporate banking division until 2002, when Josep Olliu, president of **Banc Sabadell**, called him back to Barcelona making him CEO of this bank.

In 2007 this lawyer and economist studied at **Deusto** was called by Isidre Fainé, the current president of "la Caixa", to replace him as a director general, a position placing him in charge of implementing a strategic plan elaborated months before his arrival that is to finish this year. Having good relations in Madrid following his stay at big Spanish banks, Mr Nin is perfectly acquainted with the backstage of the Bank of Spain and the main institutions and economic decision-making centres of Spanish authorities.

they are corporate branches as it's not enough to have a single one to do retail. Either you open 500 or you're lost. Trickle down doesn't work at international level.

You always say you want to keep the own business model of “la Caixa” abroad.

What did we do? We said: with 5300 branches in Spain, with market shares between 10% and 20%, with fierce and very well prepared competitors, with very good savings banks in each region and with the need of diversifying risk, where shall we invest? First we looked for retail banks, either doing or potentially doing retail. We looked for geographic growth areas, excellent management and having influential shares (being in the board). So we went for a learning curve, an internationalisation process, which means to have a model with advantages and disadvantages. We hope that with our own management and good management of our partners, we'll have a double positive effect.

«We looked for geographic growth areas, excellent management and having influential shares (being in the board).»

Financial investment as such will be a good business based on dividend and capital gain (we've done two investments outside Spain at high gains, one in Mexico and the other in Austria), but as we're growing, our customers are able to take advantage of a set of synergies. In countries where we've invested they find big support. The most complete offer for any Spanish company in China is ours. BBVA is at Citibank but we have a hundred Bank of East Asia branches in China, so we provide a benefit for our customers. We draw a benefit from dividend and capital gain, we have an influence and especially a growing footprint. Instead of going to China, which we could have done, and buying a bank there, which they sell (famous rural banks are worth 200 million euros), or going to Bulgaria, Romania or Poland and buying a small bank, we bought 15% of the first foreign bank in China (Bank of East Asia). It's

very well managed, being from a family controlling it with a similar percentage as ours, and if China grows, and everything indicates that China will grow stronger than Spain, perspectives are excellent. Thus it's a financial investment for dividend; it's for capital as it provides capital gain, has room for development and provides service. This is what we've done in China.

And why don't you ever expose the “la Caixa” brand abroad?

The internationalisation processes I have seen, and I'm for thirty years in the banking industry now, are very complicated. There are always difficulties, no matter if you're Citibank, Bank of America, Santander or BBVA. We have a strategic plan saying that we need to become international, but there is another point, management. An organisation that doesn't put pressure on itself makes no progress. Zara was number one in Spain and a moment came when it took the risk and went abroad. That saved its life. Mango is what it is because after its expansion in Spain it went abroad. If you talk to people at Desigual and Pronovias, you'll see that you need to push your organisation to uncomfortable and difficult management positions as this makes you strong. What we like is the retail business, with millions of customers. With this mindset, what would “la Caixa” do if it bought a small bank in Poland or Romania?

So you're saying that not exposing the brand is a matter of size? This is not the case of Santander, for instance.

At Santander they created their brand many years later. Much later. When you are consolidating your accounting positions above 50% and have a unique IT platform, you can place your name there many years later, but not before. Look how difficult it was to them to put their name in the UK at Abbey. HSBC, the world's biggest bank, bought first a bank in France and kept it unchanged for years. Then it gave it its name.

We prefer to have shares in the Asian market, in Central Europe and America being very careful and not entering there with a little operation.

And now we can say that with the same investment, “la Caixa” has the best offer in China. And if China grows, we will grow accordingly, having a 15% share. In Central Europe we invested in a bank that is the demutualisation process of Austrian savings banks, the **Erste Bank**, which is number two in Austria and number one or two in the Czech Republic, Slovakia and Slovenia.

But analysts criticised heavily the appropriateness of this investment by “la Caixa”.

I’ll give you some figures to judge its appropriateness. Erste is older than “la Caixa”. With 17 million customers, it’s the first retail bank in Europe and it’s in the only area growing solidly and with a perspective on the continent. The bank is controlled by a foundation having a 20% share, and we hold 10%.

In America you went for a similar strategy...

Exactly. There we couldn’t buy anything because everything you have there is either very big or very small. What should we buy, Citibank? Or should we go to less competitive countries? In America we invested in **Inbursa**, a financial holding of the **Slim** industrial group, with very serious people and very good managers. We have a share in Inbursa and, like with Erste Bank, it’s positive as to latent capital gain. We helped them open about two-hundred branches in Mexico. We’re in the board and hold 20% of the shares. And out of Inbursa, together with the Slim family, we’ll see what we do in America. But we’ll do it together with very experienced people. We also have 20.85% of an internet bank, **Boursorama**, which is listed in France. Our partner is **Société Générale de Banque**, which operates in the United Kingdom, Germany, France and Spain.

And how is internationalisation of internet banking working?

It’s a strategic investment. If retail banks eventually do business through the web in the future, we’ll already have an internet bank in all of Europe. There is a population segment operating through this platform only. There are certain banking products that are fundamentally



▲ «What we like is the retail business, with millions of customers.»

done via the internet. Our bank is having a benefit, as opposed to other internet banks.

«An organisation that doesn’t put pressure on itself makes no progress. You need to push your organisation to uncomfortable and difficult management positions as this makes you strong.»

Is the investment in Portuguese **BPI also a strategic investment or an inherited one?**

There is nothing inherited, the institution is the same. In the end of the day, an institution is what it is.

Let’s talk about the listing of **Criteria, the “la Caixa” arm undergoing internationalisation.**

Listing means a discount on organisations with a strong holding component. All holdings have it. This discount already existed when it went public. It became stronger with the crisis, but despite some analysis, as months and years passed, we proved that Criteria serves its duties in terms of dividend. Even now it’s more

profitable based on dividend than when it went public (not for those buying now, but compared to the starting price). It has been shown that there is serious management, that it's a company working well as to dividends and is becoming more attractive than others. It has also been shown that the Criteria business gives value in terms of investment. Criteria shareholders benefit from the first moment of what we bought and what we proved to work well. And finally, when the economy recovers, expectation of any capital gain for some selling operation is bigger, so if we look at it, we'll see that since 10 October 2007, the discount on its portfolio value has been considerably reduced. We went from a discount above 30% down to 27%. But this is a logical development as Criteria looks increasingly like an investment group taking decisions instead of a mere holding in which discount is almost a mathematical and financial formula, a society present at boards, having an influence and ability to manage not only dividends but also capital gains. Besides, it's very young, it just went public.

«Criteria looks increasingly like an investment group taking decisions instead of a mere holding, a society having an influence and ability to manage not only dividends but also capital gains.»

Increased regulation all governments wish to implement after the events leading to the financial crisis is compatible with internationalisation of a financial business like that of "la Caixa"?

More regulation doesn't mean more safety and welfare for the economy and the financial system. The financial system is probably the most regulated economic system in the world, together with the health and the pharmaceutical ones. We're experiencing social, political and economic change with an unheard outreach for humankind, and this has its effects on the financial system. It's obvious that more regulation doesn't mean more safety, as with the

same regulation and a very strong crisis we're starting seeing differences by country. And within the countries, with that same regulation, does Washington Mutual (now disappeared) have anything to do with **Goldman Sachs**? Or with that same regulation, has Citibank, which almost disappeared, anything to do with **JP Morgan** or Bank of America? And it's the same regulation! So there are different behaviours with the same regulation. Can some things be corrected? Of course, so let's correct them.

What things are you talking about?

Well, basically the essence of the business.

I believe that regulation needs to make always sure that the link between the initial customer and the final responsibility of the operation is not broken. If you give credit, break it, mess it up, sell it and forget about it, you can find somebody in Japan having with his retirement plan a part of his savings in the credit card of somebody not paying in Delaware. And who claims that? This is breaking the nature of the business. So this link, which is very subtle, is what they're trying to correct.

Besides, there are not only countries having done it better or worse under one same regulation, but there are also banks having done it better or worse. Perhaps what we should start talking about, although it's not as nice and popular, is more and better supervision. In our case, the **Bank of Spain** monitors permanently the daily business of Spanish financial institutions. That's supervision.

More regulation? I have my doubts. Better regulation? Yes, in some things. Better supervision? Yes, of course.

There are more industrial companies than banks going abroad. However, financial markets are global. Why aren't financial institutions more international?

Basically for two reasons. First, because regulation barriers are considerable. If you go abroad as an industrial company, build a factory and start working, you'll comply with local legislation. But regulatory barriers to admit a financial institution to a foreign market are very big,

both the visible and the invisible ones. Enough capital needs to be provided, you need to say who you are, explain what security you'll give of what you intend to do, and based on that you'll be allowed to do some things and others not. Then there is a fundamental matter, which is a big discussion applicable to global megabanks: when a financial institution goes international as such and buys another one or creates a new one abroad, unlike industrial companies in which you invest capital and if things go wrong, you lose it, in banking you invest capital, buy the headquarters, the IT platform, hire the people, and so on and so forth, but who has a say in the country asks you to be more locally committed, starting with customer deposits. Any banking investment goes beyond capital. From a cash flow perspective, that's very risky.

«Under one same regulation, there are countries having done it better or worse and there are also banks having done it better or worse. Perhaps what we should start talking about is more and better supervision.»

And when it's said that banks shouldn't grow much because otherwise it's impossible to drop them, is there fear that it could be harmful for internationalisation?

There are two theories. One says that from a certain size, financial institutions become unmanageable. Technological and human management capacity has a ceiling. This is a very deep and interesting discussion. There are even people saying that from 200 billion euros capitalisation a bank needs to have so many million customers, be in so many countries, have such big control systems and with such a sophisticated internal management structure that it starts being dangerous as it's very difficult to run. That's one thought. It is obvious that this was the case thirty years ago, but with current IT and information systems as well as management capacity right now, it's very controversial. Behind this opinion is another one saying that

Directly to the international banking industry

“Ia Caixa” and its business and financial holding have been rebalancing their positions in 2009. «More relevance has been given to financial investment», Joan Maria Nin explains. Basically, what has been done is focusing investment on the banking industry.

Thus participation in BPI, Erste Bank and The Bank of East Asia has increased. The share in the Portuguese bank increased to 30.1%, with a 10 million euro investment; in Austrian Erste, “Ia Caixa” signed the capital increase (from 5.1% to 10.1%) in an operation involving a 635.4 million euro investment; and it also increased its participation in The Bank of East Asia (BEA) from 9.81% to 14.96% after investing 331 million euros.

However, it is not only about doing capital operations. “Ia Caixa” and Criteria have signed strategic agreements with The Bank of East Asia, Erste Bank and BPI regarding investment and business cooperation. Criteria CaixaCorp holds 20% of Mexican Grupo Financiero Inbursa and 20.9% of French Boursorama.



▲ «The financial system is probably the most regulated economic system in the world.»

if they stumble they should be helped as they are so big. So there is an attempt of avoiding too big banks. And here comes the discussion: who controls whom?

«More regulation? I have my doubts. Better regulation? Yes, in some things. Better supervision? Yes, of course.»

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