

INTERNATIONAL SAVINGS BANKS

1 August 2023

The Savings Banks Organisation in Spain

Since the end of the 1980s, when the regional principle was abolished in Spain, cooperation between savings banks has been abandoned in favour of growth of the institutions. Since then, the number of savings banks in Spain has fallen sharply. In turn, the market share of savings banks in the lending business has risen from approx. 28% to approx. 36%.

A law passed in July 2010 allowed the separation of the public welfare orientation from the banking business. The tasks oriented towards the common good (in Spain: "obra social") remained in the sponsoring savings bank, which was run as a foundation under private law. The banking business could be outsourced to a (listed) bank with the aim of raising equity capital on the market. While the sponsoring foundations continued to exist for the most part, the bank holding companies experienced two waves of mergers until 2012, which resulted in a complete reorganisation of the sector by 2014. The financial institutions CaixaBank and Bankia merged to form CaixaBank in March 2021. The merger is considered one of the largest in Spain.

Today, therefore, only eight savings banks are left. Two savings banks remained in their old form. The other six are credit institutions derived from savings banks. These are supported by 13 banking foundations (former cajas). The balance sheet total of these holdings is about EUR 806 billion.

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The Spanish banking market

In macroeconomic terms, the banking sector in Spain is of above-average importance compared to other European countries. In 2022, the balance sheet total of all banks was about 3.3 times as large as the country's total economic output. In comparison, the European average was 2.4 times the GDP. The bank branch network in Spain is still well above average, with 2,465 inhabitants per branch. In comparison, the European average is 3,228 inhabitants per branch (see figures 1 and 2).

In 2022, the portfolio of loans at risk of default at Spanish banks fell to a value of 2.8%, slightly above the European average of 1.8%. The cost-income ratio of Spanish banks decreased in 2022 and was below the European average with a value of 50.3%. Profitability, measured by return on equity, was 10.4% in 2022. Spanish banks were thus again above the level of other competitors in Europe (see figures 3 and 4).

Since the late 1990s, Spain has experienced a construction boom fuelled by low interest rates and rising incomes, which has been the driving force behind sustained high economic growth. In 2008, the real estate bubble burst. The financial crisis quickly developed into a banking crisis, as a result of which a state bank rescue fund (FROB) was set up in 2009 and the decision was made to restructure and recapitalise the Spanish savings bank sector.

In January 2016, the European Commission concluded that the financial support programme for banks had been successfully completed. The Commission underlined the success of the measures put in place and the strong commitment of the Spanish authorities in their execution. In the end, only EUR 40 billion of the EUR 100 billion made available was needed.

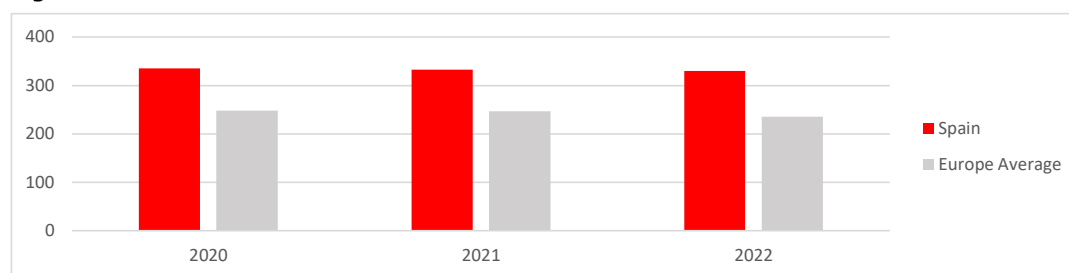
After two years of pandemic, the Spanish economy has been impacted by the Russian invasion of Ukraine. Despite robust activity from tourism and other services as well as political support, growth is being held back by higher energy and food prices, lower demand from trading partners, declining consumer and business confidence and rising interest rates. The IMF forecasts an expected growth of 1.1% for 2023. According to the international monetary watchdogs, the risks are tighter financial conditions, weaker global demand and rising European energy prices.

Table 1: The largest Spanish banks by balance sheet total

Group	2022	2021	2020	2019
Banco Santander	1,735	1,596	1,508	1,523
BBVA	713	663	736	698
CaixaBank	592	680	452	391
Banco de Sabadell	251	252	236	224

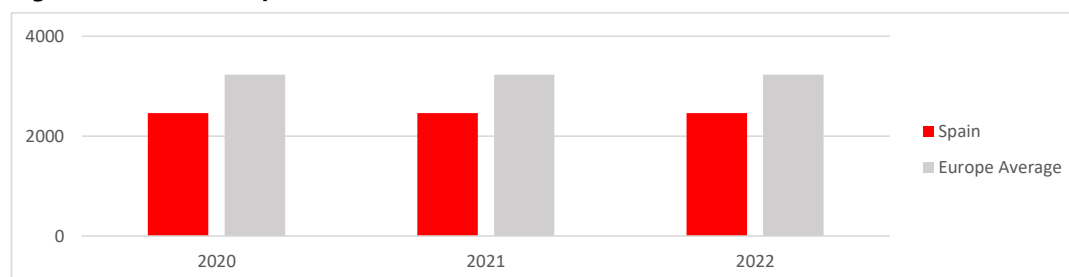
Source: 2022 financial report of the respective group, in EUR billion

Figure 1: Banks' balance sheet total to GDP in %



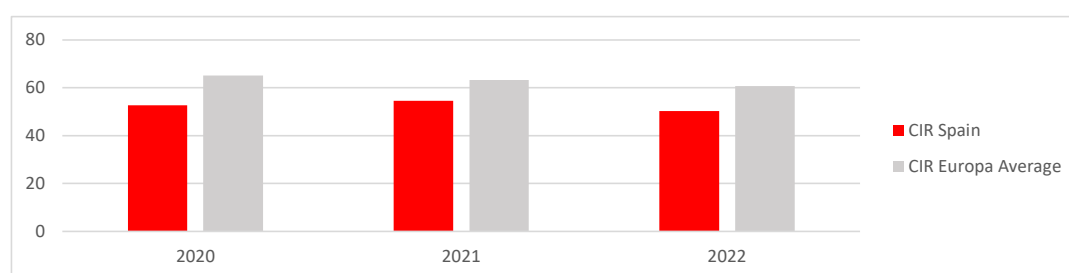
Source: European Central Bank 2022, own calculations

Figure 2: Inhabitants per office



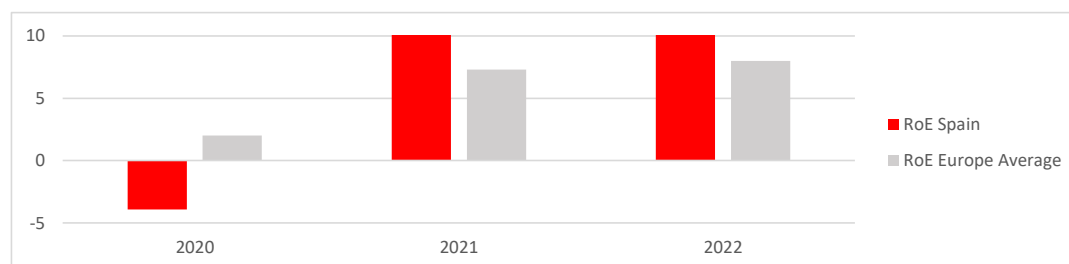
Source: European Central Bank, Eurostat 2022, own calculations

Figure 3: Cost-income ratio (CIR) in %



Source: EBA Dashboard, 2022

Figure 4: Return on equity (RoE) in %



Source: EBA Dashboard, 2022

The Spanish savings banks

The first Spanish savings bank (Caja de Ahorros) was founded in 1838 by private initiators. As in other countries, the primary aim was to promote savings as a means of improving the living conditions of the population.

The savings banks, which were run in an ownerless legal form, were declared charitable institutions and their management was transferred to a body with members appointed by the state. Their sphere of activity was limited to the respective home region (regional principle). Even at the beginning of the reform of the Spanish savings bank system in 1977, when savings banks were put on an equal footing with private banks in terms of permissible transactions, the state exerted massive influence on the activities of the savings banks, among other things by stipulating the use of profits and deposits. Business with companies was prohibited .

Since 2010, it has been possible for the savings banks to outsource their banking business to a public limited company. This happened for the vast majority of cajas. In a second step, the banking business of several institutions was then merged (as a merger or as an Institutional Protection Scheme - IPS). In the process, the original cajas remained in the background as sponsoring foundations. However, banks that are still referred to as "savings banks" due to their historical origins operate on the market. With the Savings Banks Act in December 2013, a growth cap was set for the "cajas". With a balance sheet total of more than EUR 10 billion or a market share of more than 35% in deposits in their regional home market, the banking business must be outsourced to a separate credit institution.

However, this regulation essentially only reflects the reality that already exists today. For example, of the former 45 Spanish cajas, 43 institutions have consolidated into 6 large savings banks through mergers or incorporation into an IPS. Since 2015, the number of branches has decreased by 35% and the number of employees by 14.5%. Nevertheless, around every second bank branch in Spain is still that of a savings bank. Only two cajas, Caixa Ontinyent and Colonya Caixa Polença, still have their operational banking business in their own hands (for more details see table 2).

In September 2020, the supervisory boards of Caixabank and Bankia decided to merge the two institutions, one of the largest mergers in the country. The merger was legally completed at the end of March 2021.

Table 2: Consolidations in the Spanish savings bank sector

2009: 45 savings banks	2021: 8 savings banks
La Caixa, Caixa Girona, Cajasol, Caja de Guadalajara, Caja Navarra, Caja de Burgos, Caja Canarias	Caixabank (after merger with Bankia)
Caja Madrid, Banaja, La Caja de Canarias, Caixa Laietana, Caja de Ávila, Caja Segovia, Caja Roja, Caja Murcia, Caixa Penedès, Caja Granada, Sa Nostra	
Cajasur, BBK, Kutxa, Vital Kutxa	Kutxabank
Unicaja, Caja Jaén, Caja España, Caja Duero	Unicaja Banco
Caixa Galicia, Caixanova	Abanca
CCM, Cajastur, Caja de Extremadura, Caja Cantabria	Cajasur Banco
Caja Inmaculada de Aragón, Caja Circulo de Burgos, Caja de Badajoz, Ibercaja	Ibercaja Banco
Caixa Ontinyent	Caixa Ontinyent
Colonya Caixa Pollença	Colonya Caixa Polença

Source: ceca, 2023

The growth rate of credit to the private sector in 2022 fell by 2.13%. Corporate and household deposits increased by only 0.8% year-on-year. Recurrent income increased by 1.59% year-on-year in Q4 2022. The consolidated result increased by 27% year-on-year to €4.2 billion.

In Spain, "Obra Social" refers to a social work or social commitment carried out by banks or other financial institutions. "Obra Social" includes charitable activities and programmes aimed at the welfare of society. This may include, for example, support for educational projects, cultural events, social programmes, environmental protection measures or measures to promote health and well-being. The aim of "Obra Social" is to make a positive contribution to the community and to assume social responsibility.

In 2022, the Spanish savings bank foundations spent a total of EUR 800 million for charitable purposes. They supported a total of almost 33 million recipients in 72 projects.

Table 3: Structural characteristics of the Spanish savings banks

<i>Legal form (of the cajas or bank foundations)</i>	Universal banks in a legal form similar to a foundation without shareholders and without the intention of making a profit. Since July 2010, it has been possible to transfer the banking business to a public limited company. If the shareholding falls below a minimum of 10%, the savings bank must be converted into a foundation without banking business. The same applies to the contribution of central areas to an IPS.
<i>Public support and control</i>	According to the law, a maximum of 25% of the members of the general assembly may be provided by the public administration. Elected politicians may not hold office in the bodies of the savings banks.
<i>Business activity</i>	In 1977, the savings banks were put on an equal footing with private banks with regard to permissible transactions.
<i>Regional principle</i>	In 1988, the regional principle was completely abolished. The establishment of branches is also permitted abroad, as is participation in institutions abroad. The new Savings Banks Act of 2013 stipulates that savings banks may only operate in their own and neighbouring provinces, with a limit of a maximum of 10 provinces.
<i>Common good orientation</i>	The savings banks allocate at least 50% of their after-tax profits to reserves. The surplus is used for charitable purposes (Obra Social).

The umbrella organisation: CECA (Confederación Española de Cajas de Ahorros)



The National Federation of Spanish Savings Banks was founded in 1928 and is a member of the European Savings and Retail Banking Group (ESBG) and the World Savings and Retail Banking Institute (WSBI).

Table 4: Structural characteristics of the Spanish Savings Banks Association

Members	All Spanish savings banks, SIPs derived from savings banks, savings bank foundations and credit institutions that operate according to the guidelines of the savings bank system. Membership is voluntary and permanent, each savings bank has the right to terminate.
Purpose	<ul style="list-style-type: none">• Representation of members at national and international level. Specifically at international level, representation of the Savings Banks in the World Savings and Retail Banking Institute and European Savings and Retail Banking Group.• Statistical analyses and administrative services for the members, as well as advisory support in the fields of tax, regulatory, economic, marketing and advertising issues.• Study and training centre for all areas relating to the financial markets

Table 5: Key figures of the CECA member institutions

	2022	2021
Cost-income ratio	54%	59%
Market share of Ceca Institute for loans	36%	37%
Market share of Ceca Institute for deposits	39%	40%
Total assets (in EUR billions)	806	905
Offices	7,630	8,842

Source: CECA, 2022

Cecabank



In 2012, the management of CECA decided to outsource the financial operations of the association to a bank which was to be created for this purpose. On 12 November 2012, Cecabank was founded, to which all the Association's receivables and liabilities were transferred. Since this spin-off, the Association has been responsible for the representation of interests and communication between the savings banks, while Cecabank works as a financial service provider for the savings banks (e.g. in the securities business).

Table 6: Structural features of Cecabank

Legal form	Public limited company
Shareholder	CECA: 89%; savings banks and their successor institutions: 11%
Purpose	<ul style="list-style-type: none">• Financial service providers of the savings banks (foreign business, securities and issuing business, giro centre)• Consulting, technical and administrative services for public and private corporations

Table 7: Key figures of Cecabank

	2022	2021
Total assets	14,415	17,198
Equity	1,253	1,201
Profit from operations	65	69
CET1 ratio	30.8%	30.1%

Source: Cecabank Financial Report, 2022, in EUR million

CECA and CaixaBank are members of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG).

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Note

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