

Keynote speech – Ana Botín

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Good morning

I really enjoyed your words, Kristalina, and thank you for the introduction. It is great to be here today.

The theme we are covering is not just important, it is essential for Europe's future. What is happening has an impact on banks, but very importantly it has an impact on us, as people and on society.

I want to spend a few minutes on what Europe means and the context of the digital revolution, the need to manage change.

As I always tell my team when I ride Santander was pretty successful. When I speak about change at Santander I'm sometimes told that we were doing great. So I think this is superimportant for us in Europe. Europe has done well. I'll give you some numbers that we all know but it is good to remind ourselves. This is not taking me away from the fact that we need to change, and we need to do that fast.

I would also share what I see are three priorities for this change. What should be our main focus and finally something about what Santander is.

It's not possible to speak about Europe today without acknowledging what has happened over the last couple of weeks.

Of course it is about Southern Europe, about my own country.

Of course the politics in these countries are different and it is precisely the fact that they are linked to each other, and to the rest of the Eurozone, that should remind us of why the Eurozone's capacity to weather shocks and periods of uncertainty is so important.

This interconnection is also about what happens to something that for many might be quite unimportant, affecting today's lives of people and companies, which is the spread credit between a bank like Santander and the sovereign. Or the spread between a bank in Southern Europe and Northern Europe. It is crucially important.

Because this spread determines the price and even the availability of financing for small SME's. This happened in 2012, now it seems to have stopped. If a strong bank, in a country that is perceived that it is not strong, is affected by market movements, it affects the availability of capital to an equally competitive SME in Valencia compared to the same company in Munich. And what it means and it has meant is that some companies have disappeared not because they were not competitive but because they were in a country that was perceived to be weak.

My first observation is that we often refer to North-South divide and it is not as simple. Italy and Spain, for example, are quite different; we have different challenges, different debt dynamics, different demographics; different labour markets.

I would like to point to one common thing between Italy and Spain and that is the huge flow of immigrants that we have had. I'm sure not many of you know that between 98 and 2008 five million people joined the Spanish economy, a country of 40 million (equivalent to Germany it would be 10 million in that same time period).

This is very important to bear in mind.

But I think the very important thing is that within Europe there is a range of options and if you are in the right side it allows you to be very competitive. This is a reminder that we need to encourage flexibility, while imposing common forms of discipline.

My second observation is that it is not just important but urgent that we make the Eurozone more resilient to such bouts of uncertainty and volatility for the reasons I just mentioned.

It was very obvious in late 2012 but somehow it became less obvious as things improved after 2013.

And of course we have seen in 2012 that a measure of collective liability was the best buffer against market nerves and contagion.

My third point is that if we cannot do this all at once, then we may need to look at pragmatic options for a multi-speed Eurozone. But we must define

the end point clearly and unequivocally, and be clear about what is expected of member states in terms of structural reform to get there.

We can negotiate the pace but we cannot longer be ambiguous about destination.

This can be done.

We have the basics of a roadmap in CMU, Eurobond and EMF proposals, and a single deposit insurance system. But these need to be elevated into a clearer plan of action. Now we need to balance discipline with incentives – in effect, to make the “stick” of rules and the “carrot” of risk-sharing work together. And to make sure they start working together as soon as possible.

Finally, I think there is another lesson from recent events. We do need a strong story and vision, and durable political consensus. One that convinces people, everybody across Europe, that the currency is a solution, not a straightjacket. That Europe is a shared project. I, of course, defer to the politicians on how to do this but, from the private sector, we are very open to collaborate in anything we can. In parallel, it is important to implement an action plan for these three key areas of progress that I just mentioned.

We need them, we need them now, so we can move forward with confidence.

(That is not what I was going to speak about today but I think that it was important to mention given what has recently happened.)

What Europe means

I would like to briefly cover what Europe means.

I spent the first half of my life outside of the EU and the second inside. I have no doubt that the second half has been much better.

Before then we needed a passport, we needed different currencies, we needed lots of papers when we traded among us.

There is no doubt that for Spain, being part of the EU has been transformative, a fundamental driver behind more than three decades of reform and progress.

Today, Spanish companies prosper in the single market and globally. Spain has world class infrastructure and we are one of the largest destinations for foreign direct investment.

I was talking to some of our customers in the other industries. These factories, PanEuropean companies, are the second most competitive and most productive in Europe. Spain has actually gained share of world exports over the last decade from 26% to 34% over the last 7 years.

The transformation has not just been economic. It has touched nearly every aspect of public life in Spain – social, of course social policy, education, culture...

For us at Banco Santander, EU membership has also been transformative. We are the largest independent provider of consumer finance in Europe, from a very strong position in Germany and the Northern countries, across most of the European Union actually. We serve 67 million customers across the region. Without our solid European base, we could not have expanded into the Americas.

Having said all this we see challenges ahead and as I said it is not just important but urgent we address them.

We have seen deep crisis and a political effect on all of this.

The reason I refer to this is to remind us that the Eurozone is unfinished in important practical ways.

But these challenges do not deter my vision that we have made and we are making huge progress.

I would like to cover briefly the context and it is very important to understand this context as we think ahead to what priorities we should have together as

Europeans but also across public and private sector. And what the digital disruption means for all of us.

Digital disruption is not new

There have been different processes going on.

An old one is automation. That is not new. We have seen it happened before.

But the new elements are what we need really to understand. The first is the transforming power of digital networks, that has raised questions, among others, about who controls these networks, what these networks allow in terms of building global platforms... which, by the way, as of today, none of the 10 global platforms are European.

But also, who benefits economically from their creation and maintenance.

Is their distribution of their results fair?

At the heart of this is the internet, cloud computing and the power of big data. A lot of our policy response to the digital revolution is focused on how to roll out these networks to every part of the EU, plugging people into them and protecting them and their data.

The second and linked change is the growth of artificial intelligence. This is changing not just how we work, but the very jobs we do. It is a huge shift in the roles of machines in our lives. Not just working for us, but thinking, judging, choosing for us. Displacing us, but also enhancing us.

As I said, all of these have huge implications for us and must push us to change.

The jobs most susceptible to automation used to be those jobs that involved repetitive physical movements, as in a factory production line. Now they are jobs involving systematic reasoning process that can be learned by machines. A lot of our modern services economy is built upon that.

The reach of automation into these areas potentially hollows out the labour market – leaving a layer of creative or cognition-based jobs, and a layer of skilled and unskilled physical work that is difficult to automate, but displacing a wide range of economic roles in the middle.

When I say 'middle' I mean that in more than one way. This middle of the labour market - skilled but repetitive tasks, applying human logic and reasoning to information - is where the modern European middle class makes its living. And with that living is the broad-based prosperity and demand that drives our economy.

Moreover, present trends indicate that as the economy goes digital, more people will sell their labour directly on the marketplace, rather than to large employers such as companies and governments. This raises important questions about how the securities and protections, the social contract that we know in Europe (and by the way it is still the best system in my view in the world) created by old employment models can be reimagined for these new ones.

There is more and more a trend where the middle has been left out. On the one hand you have large global platforms, on the other small companies or even self employed people that can leverage on this new economy.

This links back to the point about the middle class. A strong middle class is defined not just by income, but by a degree of economic security - security to invest as well as save, security to borrow for homes, security to simply live in confidence.

The post-war European middle class model was the result of global economic forces and a particular moment in the history of technology. We can't preserve that model but we must recognise that it was also shaped by good policy, including fair rules and competitive markets, adequate social safety nets and a commitment to education for all so we could have sustainable broad-based growth and demand. Those are principles we can carry over into a new economy. A new economy that requires a new framework – and a new social contract.

We are just beginning to understand the implications of what it means – for equality, and for the economy. Also for us in Europe.

But we can say one thing with confidence: the general lesson of past disruptions is that the jobs that are lost and will not be replaced should be our key focus. The World Economic Forum predicts that some 35 million extra workers will be required to fill Europe's employment gap by 2050. Part of this is thanks to the talent shortages and demographic trends, but much is driven by technology.

Europe's challenge in this age is to understand the new social needs and expectations, and ask ourselves questions like: Who will employ our workers, our sons, our grandsons in the next five years or in the next 10 years?.

And take action.

There is no doubt in my mind that Europe and the world has made huge progress.

As Stephen Pinker reminds us, the percentage of the world's population in extreme poverty has fallen from 90% in 1800 to less than 10% today. Yes, 10% compare to the 90's is a low number but 10% of 6bn is still 600million. So this is the way to see it: huge progress in Europe and the world but still we have a lot to do.

Progress is disruptive. It is uneven. It is too often not fair. The digital revolution, let's remember in Europe, is a global revolution, it is not just about Europe and it is not just about North and South, it is about the world.

In this new world think about trade. We trade cars and steel, but what about data?. Many people say it and I agree: data is maybe the new oil. Everybody use this data, is not just banks. We used data for ever, every single company.

And this is the kind of issues we really have to focus on.

Principles for a new European framework

I would like to say briefly three ideas of what I believe should be priorities for us in Europe.

First : We are in a market economy. Europe has made huge progress on the social side and has made progress because it has promote and defend fair competition that consumers can benefit not just today but down the road. That is my first priority.

The focus of this fair competition should be inclusive growth.

The digital revolution has to be an inclusive one. It is changing banking and all sectors.

Artificial intelligence in particular must be applied in a way that puts people first. With modern computing power and the availability of thousands of data points we can now make better decisions, allowing us to lend to people and businesses that may not have qualified under older models. Ensuring banks that, as today, 90% of lending have access in equal terms to the data that can allow them to make people's life better today is essential.

It is not about how we plug people into the internet, but ensuring that they are treated fairly on it. While algorithms are not prejudiced, it is also our job to ensure their results are not used in the wrong way.

When we banks do this of course we are highly regulated and must follow certain rules. This is not the case for all large platforms doing some of the same activities that we are doing.

This is important because it is connected to the wider question of who benefits from that resource that ultimately drives the digital economy - information.

The idea that information is free and open on the internet sounds powerful and liberating - a world of transparency, citizen fact checkers and unbounded creativity. The web can be all of those things. But information is more than that - it is the pattern we leave every time we search, buy or sell.

While I believe that disruption must be an integral part of innovation and growth, we need to remember that we often regulate by business model – and many new businesses do not fit those models.

To offer consumers the same level of protection they have come to expect, and as a matter of both prudential policy and fairness, the new and the old must be regulated the same way when they do the same things – or maybe when they are the same size, when they become systemic - while allowing for innovation to thrive. This can be done. As Agustín Carstens of the Bank for International Settlements has said, a level-playing field requires we adhere to the principle of “same risk, same regulation.”

The tax and regulatory structures we create for the digital age must keep in focus the need to create jobs and to provide support to workers in the

growing “gig economy.” They must ensure fair competition, and promote transparency.

The second key focus for Europe, I think we would all agree, is that we need to rethink education, with people at the center, society at the center.

We had a great event at Salamanca just last week where we had 600 chancellors from 30 countries, including German, Chinese, American and this was one of the key debates.

How do you put people on the center and how you make education open, inclusive and also take it to the next level.

This is a once-in-a-generation moment for Europe. Over the last hundred and fifty years we built a powerful technology gap in relation to many of the economies in what we call the emerging world.

This advantage is a quickly depreciating asset. Now we have to contend with the disadvantages of being the leader in that earlier cycle of global industrial innovation: legacy systems, established ways of working, incumbent producers fighting to defend their threatened gains.

Europe also has big advantages: deep pools of technical and intellectual capital, and one of the smartest young workforces in the world.

[I was in the Basque Country in the North of Spain where we have amazing engineers. We have people from companies all over Europe that come to

hire Spanish engineers. And this is true for many other countries and regions.]

We need to direct both private and public capital to the great challenge of our time: to make sure that we remain competitive and we gain some lost ground.

How do we educate people over their lifetimes? How do we educate, today, people whose working lives will span the unknown challenges of the next 50 years? How do we encourage entrepreneurship in education?

It is also true that the EU workforce for the next critical decades are already in it. How do we upskill them fast and in the right way? Is it reasonable to expect that the costs of lifelong learning are borne solely by individuals? This is a task for both governments and companies and we have to work together on this.

I'm convinced that united, Europe can play role in reinforcing the global, multilateral order that supports open trade, investment and security. Divided, we cannot. This work is not only about balancing budgets, as important as that is. It is also about the kind of world we want to build for the generations of Europeans to come.

The third priority of course is old and I will not spend a lot of time on this. It is to go faster in diversity specially in gender diversity. I always say that if the talent is distributed evenly between men and women, as there is 50%

of men and women in the world, that should be the goal and that should be what we should all straight for.

We need to speak up more about this because we are not going fast enough. We've been doing a lot of work all over Europe, all over private companies, but the numbers are not changing fast enough. So this has to be a priority and I believe that this has to be led by the men, since they are who still rule the world over all. And it goes beyond many of the issues we have tackled. My believe is that it has to be a change in culture, in how we run our companies and society.

I would like to say a last point to highlight how we at Santander think about all this. We think we have a joint responsibility, we must build responsible businesses, become even more a responsible society.

Allow me to use Santander and how it fits into the digital future as example.

We are a retail and commercial bank, serving 139 million customers, that is more customers than any bank in the world (except for Citibank I think). We serve in 10 core markets. Our core business is not just to take deposits and lend money which is what most people think that bank is about.

It is much more than that. Banks – help create economic growth and jobs. We provide payment services, advice, information when they want to trade, access to networks where people and businesses can transact, buy sell their products. We also take deposits, lend money.

It is crucially important that we keep that. The only way banks can continue to do that is that we continue to be strong and are able to finance this growth.

As a business we recognize we have a responsibility to our employees, customers, shareholders and to the wider community. Our mission is to help people and businesses prosper, in a way that is simple, personal and fair.

In this new world this is something that we think is the right way to do for our business. Responsibility for thinking about how we ensure we deliver on these urgent tasks, and others we face, to the people, for communities, and to all our stakeholders.

Our challenge today in Europe is to build a more inclusive, dynamic, competitive and open economy. And this requires a new social contract for the digital age.

I worry a lot – it comes with the job – and one of my biggest worries is that we, in Europe, must move faster.

We know what needs to be done. We know what works. We just need to get it done faster.

I am an optimist because I am confident that the nations of the European Union can work even more closely together to lead this change we need.

To build together the prosperous, inclusive and fair Europe we all hope to hand down to the next generations.

Many thanks.