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REPORT

**RESTORING THE
BANKING SECTOR'S
REPUTATION:
CHALLENGES AND
OPPORTUNITIES**

Madrid, May 23, 2019

INTRODUCTION

Bailouts, preferred stock, mortgage expenses, millionaire retirements, commissions... In recent years, days when the economics section of a newspaper contains none of these words have become few and far between. This situation has only been exacerbated by the public's lack of differentiation between the guilty and guiltless, as well as the absence of a voice highlighting banks' value despite their missteps. The media noise, deserved or not, is now reflected in reality, resulting in a bad reputation for an entire sector.

REPUTATION ANALYSIS

Banking sector versus other sectors

To determine whether banking's bad press is being acknowledged and absorbed by the public, one can look to the latest *Reputation Relevance* study, published by LLYC. It regularly analyzes a representative sample of the Spanish population and its opinion on the country's 15 main activity sectors, providing a global snapshot each of their public reputations.

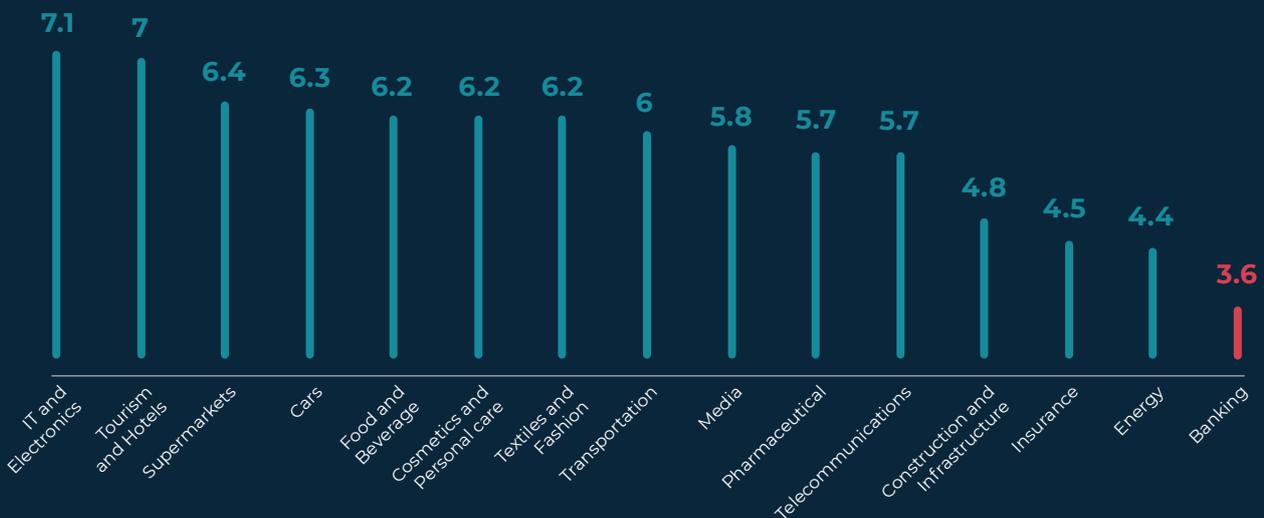
How would you score companies in the following sectors?

- Among the sectors analyzed, IT and electronics received the best reputation rating (7.1), followed by tourism and hotels (7.0). These are the only sectors ranked as "good" according to the *Reputation Relevance* scale. This result was to be expected, considering their positioning and public image as the most responsible sectors.
- Banking, energy and insurance are all sectors with "poor" reputations, failing to reach 5 points on the *Reputation Relevance* scale.

Banking is clearly the sector with the lowest score, and the only sector whose score is below 4 (3.6). Using the scoring table as a metric, the sector as a whole has a "poor" reputation, sitting only one step above the lowest possible score ("bad," between 1 and 2).

Banking shares this rank with the construction and infrastructure (4.8), insurance (4.5) and energy (4.4) sectors, but even these other low-

COMPANIES' GLOBAL SCORES IN THE FOLLOWING SECTORS: TOTAL SCORE



Reputation Relevance by LLYC

ranking sectors score a full point above banking. The overall average is roughly 6, making this difference even more notable.

- Looking at the disaggregated scores for each sector, we see IT and electronics had the highest percentage of "outstanding" responses (21.2%), followed by tourism and hotels (15.2%).
- At the bottom, the banking sector shows the highest percentage of "bad" responses, receiving this score from 30% of interviewees.

This data is even more noteworthy if we disaggregate the scores. The banking sector received no "outstanding" responses (9-10), making it the only sector with this distinction. Furthermore, the banking sector received the highest percentage of "bad" and "poor" scores, with more than 67% of responses in these zones.

Based on this, we can conclude that banking is the sector with the highest number of detractors, with

15% more than even energy, which received 50% "bad" or "poor" scores. The situation is too severe to be entirely mitigated by advocates or influencers.

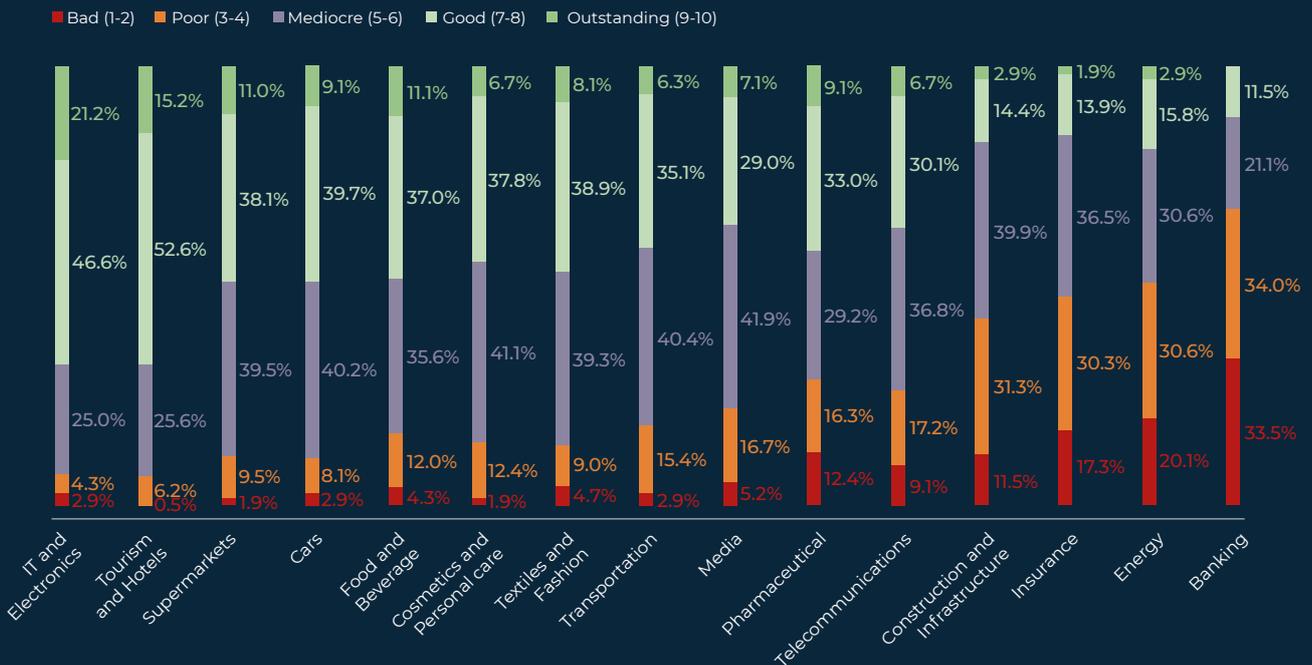
Exceptions to the General Problem

If we look across the banking sector, the problems are clearly widespread, but there are some exceptions. These can help us understand the obstacles financial institutions must overcome to improve their collective public image.

To this end, it can be useful to look at the views bank users express, which are provided in each bank's annual customer service report, published by the Organization of Consumers and Users (UCO for its Spanish acronym).

The latest issue, published in 2018, shows that digital banks, specialized entities and those that emphasize ethical banking have consistently higher user satisfaction ratings. Meanwhile, larger entities have some of the lowest user satisfaction

COMPANIES' GLOBAL SCORE IN THE FOLLOWING SECTORS: DISAGGREGATED SCORE



ratings, often with only old small- and medium-sized savings banks scoring below them.

What this suggests is that the entities representing the banking sector as a collective (large entities and savings banks) are perceived more negatively, suggesting a generalized reputation problem. Only players who have traditionally based their positioning on elements outside the banking sphere (technology, digitalization, corporate social responsibility, etc.) seem unaffected.

HOW DID THE CURRENT SITUATION COME ABOUT?

To identify the causes behind the current state of Spanish banking, LLYC carried out individual and group interviews to assess the opinions of journalists covering sector in both general and specialized media. We spoke with 17 professionals to pinpoint 6 key reasons for the sector's negative reputation. The following represents their thoughts and opinions, condensed to highlight what we learned from these illuminating conversations.

Intense Personalism

When analyzing the banking sector's circumstances, focus tends toward recent events, especially those relating to the recent financial

crisis. However, when most veteran journalists were asked, they tended to go even further back in time. Many of them believe the distance and alienation between financial institutions and civil society began with Mario Conde in the 90s'.

Mario Conde was the first banker to fully expose himself to the media, linking hitherto sacrosanct financial values to his own personal image. This trend, in myriad ways, was gradually adopted by other, similar entities, also seeking to capitalize on excessive personalism from their top executives.

Banks began to protect themselves by instituting presidential structures with relatively little regard for the interests of shareholders during this period. Since then, banks have tended to appear as insular communities, distanced from public realities.

Lack of Social Sensitivity

As regional and national politicians assumed control of certain savings banks, the sector began to grow exponentially. Some politicians climbed by questionable means. When problems began to arise as a result, their miscalculations or dubious transactions became public knowledge. These stains extended to the whole sector, causing the banking sector's first systemic reputational crisis. Furthermore, many banks attempted to downplay that crisis rather than own up to it.

Entities unrelated to any questionable activity put out a risky message: "We have nothing to do with certain banks' wrongdoing, nor have we contributed to the problems they have caused." Most journalists understood and even accepted this message, finding it both reasonable and true, but the general public saw it as a mere excuse. There was an opportunity to take partial responsibility and a chance to spearhead solutions, but these opportunities were missed; there was no corporate critical thinking.

This decline hit rock bottom during the surge of property concealment and anti-eviction campaigns. At the time, banks were struggling financially, so they chose to simply ignore the situation and apply legislation without much discussion. Banks' analyses omitted facts regarding the negative impacts of the crisis, which had left large swaths of society in serious trouble. This apparent insensitivity made a strong impression on public perception.

Loss of Customer Confidence

Until relatively recently, most generations of Spanish citizens had a near-blind faith in bank directors. But this relationship came from a time of traditionally uncomplicated business activity, usually limited to offering standard products and mortgage advising.

This trust was shattered by the issue of preferred stock. While most invested customer money was eventually returned, a considerable portion had to be recovered by heirs. Many elderly customers died without ever seeing their money, and bank reactions to this situation were not proportionate to its severity.

Some believe that banking's image problem springs from so simple an issue as its lack of any apology to those victims and their heirs. A joint effort from the entire sector may have been able to mitigate the impact, at least slightly.

Silence Instead of Communication

By some interpretations, the main mistake banks made was failing to spread positive messages just after the Bankia bailout. Instead, most entities preferred to remain silent, and were thus unable to react to the regulatory changes to the minimum interest rate clause (cláusulas suelo) or fluctuations in the tax on documented legal acts.

This misunderstanding was a result of a focus on the bank bailouts instead of the depositor bailout. However, fearing a proactive defense would further inflame public opinion, the sector kept quiet.

A recent example was the case of the tax on documented legal acts. At first, the Spanish Supreme Court ruled in favor of the prosecutors, but then reconsidered, ruling in favor of the banks instead. The government ultimately decided to legislate a reversion to the starting point. Some believe banks should have responded, defending their position from the start. As it was, banks let themselves be criminalized, assuming all costs and responsibilities without any sort of defense.

“Banks’ analyses omitted facts regarding the negative impacts of the crisis, which had left large swaths of society in serious trouble. This apparent insensitivity made a strong impression on public perception”

Scarce Legislative and Judicial Interest

Many believe the recent legal confusion involving banks could have been mitigated had there been some legislative anticipation. This was well-demonstrated by the avalanche of claims regarding minimum interest rate clauses. Pressure to enforce European regulations had been mounting for several years, but the previous government delayed the process in order to pass a new mortgage law, which will come into effect next June.

**“THE MAIN
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The extended length of the incident worsened the problem and, even worse, made banks into a popular scapegoat in court. The situation originated in an issue of insufficient regulation but morphed into one where every step the banks took was scrutinized. Whenever banks are involved with any kind of litigation, most journalists strongly believe banks are bound to lose.

“In recent years, every political party has joined the crusade against banks”

Focus of Political Attack

Most agree that in recent years, every political party has joined the crusade against banks. Attacking banks has become a common way to gain support, one often used to divert media focus from political responsibilities.

In fact, the widespread image of banks as villains has become an implicit excuse to avoid an in-depth investigation of the causes of multiple savings banks' recent bankruptcies. Banks have failed to proactively address political and social demand for transformation, so it is not unreasonable to believe that distrust for banks has been deliberately used by politicians as a protective screen in the political sphere.



POSSIBILITIES FOR THE FUTURE

The journalists interviewed helped outline some possible courses of action to improve the banking sector's reputation, putting forth eight points emphasizing the importance of the financial system and its key role in society.

SOCIAL EMPATHY AS A PRIORITY

In order to overcome disillusionment, banks should make empathy the backbone of their communication strategies. People neither trust nor like the popular image of the haughty, aggressive banker; now, they demand a warmer, friendlier demeanor. Financial entities should promote simple, modern and direct methods to present themselves as relatable to society. Bank president and CEO rhetoric has been moving in this direction for several years, but some still believe that simple, sincere and human gestures are still missing, including apologizing and accepting responsibility where necessary.

STEPS TOWARD TRANSPARENCY

You can never have enough transparency. This is the journalists' number one demand. Banks should make an effort to proactively share new information with their customers to create a more equitable relationship. Simply complying with stock exchange and regulatory requirements is now insufficient.

AGILITY: CREDIBILITY INSTEAD OF SILENCE

Financial entities must stop hiding and going against the current. In many instances, lack of agility has caused the sector to miss opportunities to highlight its value and reclaim its positive social role. Until very recently, banks have opted to focus on service quality, overlooking chances to support universities or integrate into society at large. Almost all the journalists recommend investigating these ideas in more depth.

FINANCIAL EDUCATION

The flipside of multiple generations of unconditional trust in banks is a weak financial education in the general public, which has historically characterized the country. The vast majority of journalists interviewed agree that financial education should be incorporated into schools. They recommend teaching finance as a standard subject, something they believe would be extremely helpful in establishing

an equitable relationship between banks and their customers. Moreover, financial entities should visibly be this initiative's main backers.

THE POWER OF SIMPLE LANGUAGE

Many journalists interviewed believe that the excessive complexity of contracts has contributed to rulings against banks, especially in cases regarding minimum interest rate clauses. The court of Luxembourg called into question whether customers were able to clearly understand the documents they had signed. The solution is simple: use clear and easily understandable language, either in contracts themselves or in an indexed document.

“Financial entities must stop hiding and going against the current”

COMPREHENSIVE ANALYSIS

Increased litigation, as well as the almost ubiquitous suspicion surrounding the banking sector, has prevented banks from asserting their rights, emphasizing their social value or prioritizing the security and legal predictability they require. Journalists interviewed suggest a more coordinated and informative approach regarding bank perspectives.

UNIONS AND CORPORATISM

According to the journalists, many problems arose as a result of disunity among financial entities. The sector never pushes agendas as a unified front, something which could help banks improve their collective image.

LEADERSHIP IN PROBLEM SOLVING

Another common thread in interviews was the idea of a perspective shift. Banks must acknowledge that what is most important is not seeking absolution from any wrongdoing, but convincing the public that banks are, have been and will continue to be a fundamental part of the country's growth and development.

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Data sheet:

- Journalists interviewed: 17
- Media type: National newspapers (4), Economic journals (5), Digital newspapers (5) and News agencies (3)
- Format: Individual interviews (4) and group meetings (13)
- Interview dates: April 8 to 25

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