CEO view: Josep Oliu, Banco Sabadell

By Shellie Karabell

Josep Oliu has been through three economic crises as a banker in Spain -- two of them since becoming CEO of Banco Sabadell Group. The veteran banker spoke with INSEAD Knowledge recently at the Group's headquarters in Barcelona about the crisis and what we can learn from it.

"From 1976 to 1982 there was a long deep crisis with a lot of consequences to the financial system," Oliu remembers. "This was mixed with the transition to the democratic regime in Spain and the establishment of a lot of market mechanisms that didn't exist before -- and that caused a lot of problems," he adds, referring to the country's emergence from the totalitarian rule of General Francisco Franco.

"From 1992 to 1995 there was a competitive crisis: Spain had joined the European Union. At that moment, the momentum was very positive but then, when there was the beginning of a negative momentum in Europe, the Spanish began wondering which companies were not going to be there in the future," he says.

“Now, the crisis we are experiencing is a financial crisis that has been created by a financial shock,” Oliu continues. “Now we’re experiencing a shock of credit, and that initiates a mechanism that is negative both in real estate - because there was already overcrowding -- and also in business: in the automotive industry; in the tourism industry because of lower growth and the exchange rates in England (as the value of the pound fell). I can tell you that from my professional experience this is quite a new crisis -- a new one because of the international, global scope of the crisis.”

The new regulatory atmosphere in the financial world worries him. “You never know what the regulations will be and if there will be overregulation that will be creating more problems than the regulators are trying to solve,” says Oliu.

One of those problems is the tendency to believe in bubbles. “People like bubbles,” says Oliu. “Consumers like bubbles, entrepreneurs like bubbles, government like bubbles, the regulators like bubbles. When the bubble is there, nobody does anything because they love being in the bubble, and they always would like the bubble to blow up when the opposition is in power, and so they keep the bubble growing. So nobody was thinking or making credit restrictions when everything was already overheated,” he remembers. “Consumers didn’t want interest rates to rise when it was clear they had to be higher.”

The bubble effect diverted bankers’ attention from their own bookkeeping, thus deepening the trough of the crisis. “One thing we’ve learned is that liquidity is something that had to be looked at in a much more serious and rigorous way,” opines Oliu. “We had not done that because we thought markets would be working perfectly. But markets don’t work perfectly. Sometimes they don’t work. Maybe the markets had been pushing institutions to be much more leveraged than they should have been.”

Spanish banks, however, had been much more conservative under direction from the Bank of Spain, setting aside provisions against even performing loans. “We had this ‘dynamic provisioning’,” explains Oliu. “We put aside money for the growth of credit. The thinking was some companies would be going wrong and there would be some hidden losses and those required provisioning during the periods in which everything is going right in the economy. This practice was adopted by Banco Sabadell in the 1970’s or 1980’s - before it became a national banking rule. But this dynamic provisioning is one of the reasons Spanish banks are recovering from the crisis sooner than most."

Some will emerge as international powerhouses - Banco Santander and BBVA, for example. "One question is how to deal with those banks which are multinational and how do you deal with the possibility of failure?" wonders Oliu. "Today you have banks that trade in England, Spain, South America, China, in India, wherever ... what if one of those banks goes wrong? The mechanisms of contagion are very big, and there's no institution that can cope with that. So there's the problem of how to regulate and how to supervise banks that act in more than one country and under more than one sovereignty."

"But there is another thing that creates even more contagion in the case of a problem, and it is the kinds of activities this bank does. Investment banks are not so big but they're much more contagious in their kinds of activities - hedging, for example - and the failure of this type of element in the market creates a shock wave, which was the case with Lehman Brothers. If, instead of Lehman Brothers, a commercial bank of the same size had failed, the shock would not have been that big at all."

Oliu is equally direct on the Greece crisis -- which he contends is a political crisis. "Countries have always failed," he says. "Before the EU, countries failed. In the last 25 years we've experienced the failure of Mexico, Argentina, Russia; in each case the problem was with credit. So they renegotiated their debt. In the case of the European Union there's engagement by all the countries of certain fiscal policies, and if these policies are followed, then there should be no problem. If a country doesn't follow the rules of the EU, well that's a political problem."

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