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Banking Concentration in the European Union during the Last Fifteen Years

Summary: The increase in the concentration of the banking industry across European Union countries during the last fifteen years can be explained in terms of: a) global factors, like the comprehensive adoption of technological innovations, the intensification of competition that has resulted from the deregulation of the financial sector and, more recently, as a consequence of the government interventions and forced acquisitions prompted by the 2007-2009 financial crisis; and, b) factors that have been specific to the E.U., in particular, the structural changes that took place in the region as a result of the creation of the Single Financial Market (1993) and the introduction of the euro (1999). This work analyzes the concentration process of the banking industry in the E.U. during the last fifteen years giving preeminence to the strategic choices made by the region's commercial banks. It also reports the most visible E.U. banks' M&As and government interventions that resulted from the 2007-2009 financial crisis, make a preliminary evaluation of the outcomes, and suggests possible future trends for the banking industry in the region.

Key words: Concentration in banking, European Union, M&As in banking.

JEL: G34, L22, N20.

Industrial concentration is probably the most important attribute of a market structure due to its implications over price levels determination, market segmentation and the distribution of market share among participating agents (Gilles Burgess Jr. 1989; Allen N. Berger, Rebeca S. Demsetz, and Philipe E. Strahan 1999). Concentration is usually measured as the cumulative participation (in sales, assets, market share, etc.) that corresponds to each incumbent, and is determined by two main factors: a) the number of firms in an industry, and b) their relative size (Luigi Zingales and Raghuram G. Rajan 2003).

However, the measurement of concentration in the banking industry raises special problems because one of the attributes that delimit any market is the identification of the products and services traded, and due to the significant transformations experienced by the banking industry in recent times, particularly in what concerns its growingly diversified portfolio of products and services, it has become more difficult to delineate its frontiers. For example, there are frequent overlaps between what used to be considered traditional activities of commercial banks, and the services offered by entities that are not necessarily in the financial business (commercial houses, non-bank banks, etc.).

As a consequence of the complex problem of finding an adequate definition for the changing territory of the banking business, and due to the recognition of the methodological problems derived from its fast-ongoing diversification, this work defines the "banking industry's participants" as financial intermediaries that accept deposits and grant loans, independently of the possibility that they supply other financial services to individuals and firms. Based on that ad-hoc delimitation, there is abundant statistical evidence that suggests the banking industry in the E.U. member countries has become more concentrated during the last fifteen years. While increasing concentration in banking is a trend that has been observed at a global level, during the period of reference there were special circumstances that help explain why it took place the way it did in the E.U.

Schematically, the concentration drivers of the E.U.'s banking industry can be classified as:

- Global factors, like the comprehensive adoption of technological innovations and the intensification of competition that resulted from extensive international deregulation of the financial sector (Kevin Stiroh and Jennifer P. Poole 2000);
- Factors specific to the European Union environment, like the structural changes that took place in that region as a result of the creation of the Single Financial Market in 1993 and the introduction of the euro in 1999.

The Single Financial Market laid the conditions for an integrated European banking industry, while the euro increased the intensity of competition among banks by reducing entry barriers, lowering currency risk, eliminating currency conversion costs, and reducing costs that affected consumers purchasing services from foreign institutions. Both changes reinforced the motivation to create larger institutions, capable to reap the full benefits of greater economies of scale, urged to become effective competitors across the E.U.

In the following sections, this work reviews the increasing concentration of the E.U. member countries' banking industry in more detail, it addresses the most relevant large banks' M&As, and makes a preliminary evaluation of the ex-post performance of such transactions. Last, it presents some conclusions about what the future is likely to bring for banking concentration in the E.U. in the wake of the post-financial- crisis era.

1. Mergers and Acquisitions in the European Financial Sector

M&As have been a preferred choice to respond to the profound transformations that are taking place in the global economy across all industries. According to Thomson Financial, during the 1990-2001 period there were as many as 76,849 M&As worldwide (Dean Amel et al. 2004). More than 66% of that total took place between 1996 and 2001, suggesting an intensification of that kind of transactions. The total value of the transactions for the whole period was in the order of 10,531.5 billion dollars, with over 85% of that amount concentrated during the latter part of the decade, reinforcing the idea that there was an increasing trend in the number and value of M&As.

See Table 1 in Appendix.

The M&A activity was especially intense in the financial sector during the same period. Over 15,502 financial firms were subject of control takeover transactions involving majority interests from 1990 to 2001. The level of activity increased toward the end of the decade for all types of acquisitions: there were 93 deals worth more than $1 billion in the six years from 1990 to 1996; but as many as 153 between 1997 and 1999. Also, the growth in the number of M&As was accompanied by an increase in the estimated size of the average transaction: during the last three years of the 1990s, a notable rise in the average value of large Financial M&A deals was observed.

See Table 2 in Appendix.

Both within-industry and cross-industry deals increased between the first and the second half of the 1990s, but the great majority of M&As activity was intra-sector, where the proportion of M&As in the Financial sector in which the targeted firm pertained to the banking (i.e. Commercial Banks, Bank Holding Companies, Saving and Loans, Mutual Savings Banks, Credit Institutions, Real Estate; Mortgage Bankers and Brokers) represented 79% of the total value and number of transactions. When deals were classified by industry of the acquirer, results were similar.

See Table 3 in Appendix.

In recent years, the interpenetration among banks and insurance companies has become an undeniable reality of the modern E.U. financial landscape. An increasing number of European banks have combined both, commercial banking and insurance services, as part of their core focus. In effect, the term "Bank-Insurance" was coined to refer to providers of life insurance and often times damage insurance services, through the network of commercial bank's offices, in apparent contradiction with the usually accepted principle of functional specialization. Some of the major bank-insurance groups existing today were created, mainly, in the northern countries of Europe (e.g., Allianz-Dresdner, Fortis, ING, KBC or Sampo).

The success of a bank-insurance strategy depends on several factors: the nature of the commercialized products, the importance and proximity of the networks, the brand image of different participants and the rationalization of the bank offer (George Pujals 2005). However, the future of that strategy is nowadays somewhat uncertain after the recently known dismal results of some of the most visible alliances forged to provide bank-insurance services (e.g., Allianz-Dresdner or Credit Suisse-Whinterhur), and the unexpected and devastating effects of the 2007-2009 financial crisis.

Besides the model of Bank-Insurance, other two strategic approaches have emerged among European banks in recent years: the "pure-play" Investment Banking model and the more traditional Universal Banking model.

The "pure-players" in investment banking have specialized on counseling, capital markets (stocks, interest rates, exchange rates, derivatives) and/or assets management on the account of other institutional investors. While smaller in size and subject to the active competition of the American *bulge brackets* (Goldman Sachs, JP Morgan, Morgan Stanley and Merril Lynch)[1], before the financial crisis of 2007-2009, two European financial institutions had established a critical foot-hold in that segment: Deutsche Bank and Crédit Suisse (through its subsidiary Crédit Suisse First Boston) and, on a smaller scale, the UBS.

By contrast, Universal Banks, based on a large constituency in retail banking to which proximity is a necessity, combine complementary financial activities, such as specialized financial services (for example, consumption credit, assets management or insurance services) targeted a customer base composed by particulars and SMEs. That model is today dominant in the E.U. as a natural response to strong turbulences of the past because of the diversification benefits that result in more recurrent and balanced income, never mind the economic cycle position. It was the British banks who first adopted it, followed by the Dutch and, in a smaller scale, by the French (Société Génerale and BNP Paribas), which still remain only positioned in a limited number of activities.

2. Performance of M&As

Empirical reports are yet inconclusive, but often times corroborate the effectiveness of banking M&As to create value. For example, Amel et al. (2004) find that consolidation in the commercial banking and insurance sectors is beneficial to relatively small entities in a position to reap economies of scale; but there is little evidence that mergers yield economies of scope or gains in managerial efficiency.

Bank M&As have been analyzed using two basic types of methodology: event studies and comparisons of pre-merger and post-merger performance. Event studies examine the impact of merger announcements on share prices, but are subject to a number of methodological problems, like the possible leakage of information before the event may distort share prices' reaction. The implicit assumption in most event studies performed on banking M&As is that "changes in the combined market value for the acquiring and the acquired banks, adjusted using a market model for changes in the overall stock market evolution, provide an estimate of the anticipated effect of M&As on the future profits of the consolidated institutions" (Harry P. Huizinga, J. H. M. Nelissen, and Vander R. Vennet 2001).

Event studies on banks M&As' effects that have occurred in the U.S. report mixed results but, in general, fail to find any significant value increases (Steven Piloff 1996; Simon Kwan and Robert A. Eisenbeis 1999). Based on a sample of 54 very large European banking M&A deals over the period 1988 to 1997, Alberto Cybo-Ottone and Maurizio Murgia (2000) document that the stock price response of the bidder and the target institutions on the M&A announcements are statistically significant and, while the sample also contains 18 cross-product deals in which banks ex-

[1] As a consequence of the financial stress generated by the subprime mortgages asset backed securities defaults, several of the major investment houses of Wall Street were either acquired, converted into commercial banking entities or liquidated (as was the case with Lehman Brothers in mid-September of 2008).

pand into insurance or investment banking, the abnormal returns associated with domestic bank to bank deals are significantly positive on average. Those findings are consistent with an efficiency explanation of bank mergers, and the authors suggest that the fact that their results differ from those reported for U.S. bank mergers is due to the different structure and regulation of E.U. banking markets.

Huizinga, Nelissen, and Vennet (2001) analyze the efficiency effects of 52 horizontal bank mergers over the period 1994-1998, (the period immediately preceding the creation of the EMU), in several E.U. member countries, and find evidence of "substantial unexploited scale economies in banking across different institutional types of credit institutions, also for the largest banks." They attribute their findings the capability to largely explain the substantial consolidation recorded among small and medium sized banks, especially in Germany and Italy, over the 1990s decade.

In the year 2000, the European Central Bank polled bankers about their motivations to engage in mergers and acquisitions from an industry perspective and published an interesting document that presented the main findings (either as a result of interviews or reflecting the knowledge of the supervisors; European Central Bank – ECB 2000). The report classified motivations to engage in banking M&As along two dimensions: a) same industry vs. different industry; and b) same country vs. different country, resulting in four different possible combinations (ECB 2000). Based on those results it became rather obvious that the most prevalent argument to contemplate the strategic alternative of an M&A among European bankers was the pursuit of increased profitability (Berger, Demsetz, and Strahan 1999). In general, cost benefits from economies of scale were expected in domestic bank M&As. However, according to Pujals (2005), preliminary estimations of expected synergies are always too optimistic.

See Table 4 in Appendix.

Compared to the expected synergies, those effectively captured were, very likely, much different. However, this is not a situation that could be considered particular to the banking industry but, on the contrary, it is a generalized phenomenon. During a takeover contest the buyer usually boasts about large potential synergies and cost reductions to be obtained from the target, in order to justify usually high premiums paid for an acquisition. Also, given the long term nature of the expected synergies calculations, it is highly likely that the long term projections on which they were based during the first years of the century were significantly affected by the financial turbulence and economic slowdown of the 2007-2009 financial crisis.

Yener Altunbas and David Márquez (2008) examined the impact of European Union banks' strategic similarities on post-merger performance and found that bank mergers have resulted in improved performance. Other interesting findings of those authors include the fact that for domestic deals, it can be quite costly to integrate institutions due to important asymmetries in terms of their loan, earnings, costs, deposits and size strategies. In the case of cross-border mergers, they found that differences between merging partners in their loan and credit risk strategies are conducive to improved performance. By contrast, differences in their capital and cost structure has a negative impact on their performance.

In still another study with the same underlying objective of evaluation the post-merger performance of participating entities, but this time using event study methodology, Ioannis Asimakopoulos and Panayiotis P. Athanasoglou (2009) examined the value creation of M&A deals in European Banking from 1990-2004. Their study examined the stock price reaction to the announcement of bank M&A deals, and analyzed the determinants of that reaction. The findings of that study support the conclusion that there was evidence of value creation in those acquisitions as the shareholders of the targets benefited from positive and (statistically) significant abnormal returns, while those of the acquirers earned small negative, but non-significant abnormal returns. Shareholders of the acquirers, domestic M&As and especially those between banks with shares listed on the stock market, were apparently more benefited compared to shareholders of cross-border transactions, or those cases when the target was unlisted. It is interesting to notice that shareholders of the targets earned in all cases positive abnormal returns. Although the link between abnormal returns and fundamental characteristics of the banks was rather weak, it appeared that the acquisition of smaller, less efficient banks generating more diversified income were more value creating, while the acquisitions of less efficient, liquid and characterized by higher credit risk banks were not value creating transactions.

3. Consolidation of the European Union Banking Industry

Consolidation of the European Union banking industry during the 1990s took place mainly at the domestic level, including a large number of securities and insurance companies' M&As. More recently, during a second stage of consolidation that started after the adoption of the euro, there was a marginal reorientation of that trend towards cross-border transactions. As a consequence of domestic consolidation, several "national champions" were created. Such was the case of, for example, BSCH and BBVA in Spain, Banca Intesa, Unicredito and Sao Paolo IMI in Italy; BHV in Germany or BNP Paribas and Crédit Agricole-Crédit Lyonnais in France.

See Table 5 in Appendix.

During the 1990s there was a significant preference for domestic targets among large banking groups M&As. According to a report published by the Bank of International Settlements (cited by David Marques-Ibanez and Phil Molyneux 2002), national consolidation was more popular among European banks because it was less difficult to merge more homogeneous corporate cultures. It could also be argued that European financial firms first tried to gain size and strengthen their balance sheet to achieve a stronger national presence in preparation towards international competition.

See Figure 1 in Appendix.

In more than one sense, domestic consolidation contradicted the expectations of a more dynamic cross-border M&A activity resulting from the creation of the Single Financial Market (1993) and the adoption of the euro (1999), since the elimination of protectionist barriers to financial services providers among E.U. members represented an extraordinary opportunity to enter new markets and achieve important economies of scale, not to mention the benefits associated with geographical and economic sector diversification.

In terms of national industry concentration, the average percentage of the banking and credit sector controlled by the five larger banks, measured in terms of total assets, rose from an average of 37.9% in 1980 to 57.1% in 1999. For almost all of the smaller countries, the top five banks held more than 50% of the banking assets. However, in a few countries, the concentration was even more pronounced, like in the case of Sweden, the Netherlands, Denmark and Belgium, where the percentage of assets held among the five largest banks exceeded 75%.

By contrast, in the U.K., Luxembourg, and Germany that measure was below 30%. The four largest E.U. economies had comparatively less concentrated banking sectors; e.g., Germany had the lowest level of concentration in the euro area with only 18.95%; Italy, with 38.7%, was closely followed by France, 42.70; while Spain was comparatively more concentrated, with 51.90%.

See Table 6 in Appendix.

A Herfindahl Index analysis shows that significantly large concentration increases were observed in the cases of Austria (from 0.036 to 0.1016 between 1990 and 1999), Spain (from 0.0373 to 0.0716 between 1985 and 1999) and Italy (from 0.0161 to 0.0600 between 1985 and 1999). However, in the case of Greece important marginal reductions were recorded from 0.2469 to 0.1513, between 1985 and 1999.

See Table 7 in Appendix.

While concentration increased consistently in most E.U. member countries, banks were shy to try their chances beyond their national borders. Except for a few notable cases, just before the 2007 financial crisis, most banking cross-border M&As in the E.U. were limited in size and geographical outreach, confined to regions with strong historical and cultural relationships.

See Table 8 in Appendix.

Cross-border consolidation was slower than expected due to legal differences, cultural complexity, insufficient understanding of other national markets, etc. Also, in some cases there was a notable opposition from governments and authorities to a faster and more decided consolidation. Some of the attempts of cross-border acquisition were frustrated by a veiled intervention of national authorities, apparently unwilling to see their national banks taken-over by foreign institutions (e.g. ABM Amro (Netherlands) and BBVA (Spain) to acquire a couple of Italian medium sized banks)[2]. Except for such isolated cases, before the full outburst of the 2007-2009 fi-

[2] A case in which foreign banks faced tough resistance to increase their share of the Italian domestic market from the Italian authorities.

nancial crisis there was an increasingly clear tendency among the largest E.U. players to deploy new strategies oriented towards building truly pan-European institutions.

The last highly visible attempt to build a truly pan-European institution before the financial crisis took place in October 2007, with the historical acquisition of one of the largest European banks, the Dutch ABN Amro, by a consortium integrated by the Royal Bank of Scotland (U.K.), Fortis (Benelux) and Santander (Spain). Among the first large-scale cross-border banking acquisitions, that transaction was extraordinary, not only because of its sheer size (more than 100 billion dollars were paid by the consortium after a bitter six-month takeover battle with Barclays-from the U.K.), but also because two of the three acquirers[3] who shared the spoils of the former bank, fell in serious financial distress during the 2007-2009 financial crisis. Royal Bank of Scotland was eventually bailed-out by the British government, that became its majority shareholder; and Fortis went bankrupt and was liquidated to different interested parties.

4. E.U. Financial Institutions Affected by the 2007-2009 Financial Crisis, Their Governments' Intervention, Restructuring Processes and Effects on the Region's Banking Industry Concentration

Towards the last months of 2007 there were unequivocal signals of a worsening credit-crunch originated by the Subprime Mortgages defaults in the U.S. that soon contaminated other countries and would become the worst international financial crisis since the 1930s.

As market participants realized that many Asset Backed Securities (ABSs) and Collateralized Debt Obligations (CDOs) contained in the portfolios of the largest E.U.'s financial institutions were among the defaulting securities, uncertainty generalized. Between the first months of 2008 and the end of 2009, many E.U. financial institutions were forced to recognize significant losses and were subject to drastic reorganizations. Some were acquired by competitors, others broken-up and sold to the highest bidders; and some others nationalized. This was not a localized event; subprime mortgage-backed securities generated losses in practically all major European Union nations' large financial institutions. Since a detailed analysis of that episode would be a daunting task, in what follows we focus on the largest and most visible banking firms casualties of the subprime mortgages crisis in Europe, and discuss how they had a bearing on the E.U.'s banking industry concentration.

The U.K. experienced its first bank run in over 100 years when one of its largest mortgage banks, Northern Rock, encountered funding problems in rolling over its short-term debt during September 2007. Originally a building society, it was demutualised in 1997 to become a public limited company. Adoption of the mortgages securitization business model increased its dependence on the wholesale market for funding so, by the time the subprime mortgages crisis produced a severe liquidity

[3] The winning consortium was integrated by the Royal Bank of Scotland (a U.K. bank and leader of the takeover initiative), Fortis (mainly based in the Netherlands, Belgium and Luxembourg), and Santander Central Hispano (Spain).

squeeze, Northern Rock was highly vulnerable. On February 18, 2008, after a sequence of extremely difficult circumstances, the bank became the first institution to be nationalized in the U.K. since the 1970s (Sonia Ondo-Ndong and Laurence Scialom 2008).

The spring and summer months of 2008 were plagued with bad news about failing or bailed out financial institutions of the U.S. (Bear Stearns, Freddie Mac, Fannie Mae, AIG, etc.) and as a natural consequence of their intricate network of business relations with European Union financial institutions, the latter were soon infected too. In July of 2008, the Danish Central Bank announced the intervention of Roskilde Bank. One month later, when the efforts to find a buyer that could inject fresh capital in the bank failed, the Central Bank of Denmark announced it would buy Roskilde (RTVE 2008a).

The period of worse financial turbulence for the E.U. financial markets was during September. That month, Lloyds was forced to take over the control of the Halifax Bank of Scotland (HBOS) in a transaction of 12.2 billion sterling pounds. British authorities had significant interest[4] in that transaction which created a mammoth entity with control over one third of the mortgages and savings market of the U.K., and forced the government to modify its antimonopoly legislation to allow the merger because, according to the Minister of Finance, it was “absolutely necessary” (RTVE 2008b).

On September 28, the U.K. government announced the nationalization of Bradford & Bingley, a large mortgage bank whose stock price had lost 90% of its value since January, with 2.5 million customers and 22 billion pounds in deposits. A few hours after that announcement, the Spanish bank Santander announced it would buy the 197 branches of B&B in the UK, along with its mortgages portfolio, worth approximately 41 billion sterling pounds (RTVE 2008c). The next day, the German government announced the bailout of Hypo Real Estate. Hypo was under the threat of bankruptcy, so the government coordinated an emergency 15 billion euro capital injection from a group of private banks, including the government’s collateral for 35 billion euro. On the same day, the governments of Belgium, Holland and Luxembourg announced the nationalization of Fortis bank, through a joint investment of 11.2 billion euro that represented 49% of the equity of the bank’s operations in each one of those countries[5]. The nationalization agreement contemplated that the assets Fortis acquired from ABN Amro the previous year would be transferred to the Dutch bank ING (RTVE 2008d; Roberto Santillán-Salgado 2009). By September 30, the governments of Belgium, France and Luxembourg announced the rescue of the financial group Dexia, with an injection of fresh capital for 6.4 billion euro (RTVE 2008e). On October 6, the German government made a new announcement, this time it was the second bailout of Hypo Real Estate. The first bailout attempt had failed when the financing needs of the company were made public and it was evident that more resources than originally estimated were needed. The German government and

[4] HBOS was at the brink of bankruptcy and its takeover by Lloyds was seen as a second-best solution by the UK government.

[5] The Belgian government contributed 4.7 billion, the Dutch government 4 billion and the government of Luxembourg, 2.5.

several private banks put together a support package worth 50 billion euro to keep Hypo Real Estate afloat.

That alarming sequence of emergencies prompted European governments to search for a better coordination mechanism that allowed them tackling with the effects of the defaulting subprime asset-backed securities and, during the weekend of October 4, 2008, the leaders of Europe's largest economies (the U.K., France, Germany and Italy) announced they had agreed "to work together to support financial institutions-but without forming a joint bail-out fund". Before the meeting, Germany had expressed its opposition to any concerted bail-out plan, even when that view seemed in conflict with the position of the International Monetary Fund President, Dominique Strauss-Kahn, who had advocated for a coordinated bailout action (BBC News 2008).

The following week, U.K. government officials made public one of the broadest bailout plans of the financial crisis, consisting of massive investments in several of the country's largest financial institutions in an effort to recapitalize the industry, end concerns about the viability of individual institutions and encourage banks to resume lending to consumers and businesses.

The plan would consist in an injection of capital through the acquisition of up to £50 billion in preferred stocks, plus a guarantee of around £250 billion for bonds issued by the banks, and additional liquidity of at least £200 billion through the Bank of England's Special Liquidity Scheme. The Treasury of the UK said that eight banks - Royal Bank of Scotland Group PLC, Barclays PLC, the soon-to-be-combined HBOS PLC and Lloyds TSB Group PLC, Abbey National PLC, Nationwide Building Society, Standard Chartered PLC and HSBC Holdings PLC - could draw on an aggregate sum of £25 billion in order to boost their Tier 1 capital, a measure of capital against risky assets.

The British plan was sharply contrasting with the U.S. Toxic Assets Rescue Program, with its $700 billion financial-markets bailout fund. While the U.S. program was aimed at taking toxic assets off the banks' balance sheets, the U.K. plan was aimed at boosting banks' capital, so they could restart lending. While the British government took a significant stake in its national banks through the purchase of preferred stock, it didn't acquire voting rights or an active, day-to-day managerial role. However, since that moment, it established a set of conditions that institutions benefited with government resources should observe, including restrictions to dividend policy, executive compensation and full commitment to support lending to small businesses and home buyers (Wall Street Journal 2008).

The global financial markets were less turbulent in October, but witnessed highly unusual events. One of the most dramatic episodes was the nationalization of Iceland's three largest banks Kaupthing bank, Glitnir bank and Landsbanki, in a matter of only three days (between the 7th and the 9th of that month), after the massive demission of their top executives (RTVE 2008f). On the 19th, the Dutch government announced an injection of 10 billion euros to the capital of ING, after significant losses throughout the year (RTVE 2008g). Also, during that month, the Swiss government bailed out United Bank Suisse (UBS), that country's largest commercial bank, and urgently renegotiated the capitalization standards for Credit Suisse, its second largest bank (RTVE 2008h). Finally, on the 27th, the Belgian government announced the bailout of KBC, with an injection of 3.5 billion euro.

When analyzed in retrospective, one can conclude that the events that took place during the last months of 2008 paved the road for a coordinated and in-depth revision of the world financial markets' regulations and mechanisms. There were rumors of the intention to implement supra-national regulations in order to achieve homogeneity and preclude what the experts named as "regulatory arbitrage". However, while numerous statements referred to the need of achieving an encompassing and strict regulation for the industry, the process remained more local and focused on the specificities of national markets.

The April 2009 Global Financial Stability Report published by the IMF surprised markets' participants not only by announcing that the estimate of total bad assets outstanding in the global financial markets was in the order of $4,1 trillion (almost certainly to be revised upwards), but by the much more shocking announcement that most of the losses belonged to European, and not to the U. S. banks. According to the IMF's report, the global banking system accounted for $2.8 trillion of bad assets and of that, over half, $1.4 trillion, corresponded to European banks vs. only $1.0 trillion for US banks (International Monetary Fund 2009). The mere recognition that European banks and other financial institutions had been the worst affected by the financial crisis propelled a number of new regulatory initiatives both at the national and pan-European levels.

One of the first signals that European regulators had taken the initiative to exercise greater control over their larger financial institutions was the October 2009 official announcement that ING, one of the E.U.'s largest financial groups, would undergo a break-up imposed by the European Commission. ING's financial services group was forced to sell its insurance and investment management business, and focus only on banking to meet the European regulator's conditions (Financial Times 2009). ING was also forced to sell ING Direct USA, its US banking arm. As a consequence, ING's balance was reduced by approximately 45%. Before the break up, ING was the 7th largest firm of the Fortune Global 500 in 2008, was a leader in the on-line banking segment, and served 85 million individual customers, firms and institutions in more than 50 countries[6]. The financial crisis and the commitment of ING to participate in the bailout of the Dutch-Belgian Fortis, which represented a large cash disbursement, limited its equity base and put it in a serious condition that required an injection of government resources. Such a harsh measure was significantly more than the market was used to and was, no doubt, one of the toughest interventions of the European competition authorities ever (Financial Times 2009). At the time of ING's announcement, and presumably correlated to it, Royal Bank of Scotland was already working on a government-backed plan to sell its 312 RBS-branded branches in England and Wales, and Lloyds was likely to have reduced its share of current accounts by 5%.

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[6] One of its divisions, ING Insurance, served more than 44 million customers in America (US, Canada, Mexico, Brazil, Chile, Peru, Argentina, Uruguay and Colombia), where it had significant activity in the pension funds industry, largely developed during the last two decades in the region.

The extremely high costs that resulted for both, private investors and national governments, represented very strong arguments to for the supporters of the need to reinforce the regulations that apply to the E.U. financial markets, which are likely to influence concentration of the industry, although it is not possible to be certain about what will the final effects will be because it will all depend on the depth and breadth of the new regulations that result from that process.

5. Conclusion

The European banking industry experienced an unprecedented wave of domestic M&As during the 1990s, with increasing intensity in the period that goes from 1997 to 2000. In the following four years, there was a loss of dynamism as a result an economic slowdown. However, between 2004 and 2007 there was renewed impetus with numerous cross border transactions that suggested the restructuring of the European landscape was far from finished and with clearer preference for cross-border acquisitions. However, the 2007-2009 crisis brought devastating effects for a number of the E.U.'s largest financial institutions. While it still is too soon to evaluate its long-term consequences, in the short-run it has affected the ownership and control of many important players in the region. In many case it has too artificially imposed on them a restructuring and redeployment of assets. However, while the crisis is expected to slow down the trend of increasing banking industry concentration temporarily, the main impetus will, very likely, continue in the coming years.

There are good arguments to defend the idea that a full-fledged economic unification should count with a pan-European banking system (i.e., an accentuation of cross-border competition at the level of retail operations in domestic markets), capable of offering many more products and services choices to the firms and consumers of the E.U. member countries.

However, it seems that precisely that kind of retail operations offer the highest barriers to entry and, as a consequence, present the lowest participation of foreign banks. The weak penetration of foreign banks in the domestic markets of the E.U. countries should motivate a more objective deregulation to reduce barriers to entry.

Finally, the low interest of foreign banks in the domestic markets of their neighboring countries is possibly explained by their relative saturation, with the only exception of Italy. But in addition to the "economic" barriers to entry, it is highly likely that there are other barriers to entry of a social and cultural nature, although less obvious and, most likely, more difficult to measure.

The construction of truly pan-E.U. banks should eliminate arbitrage opportunities and level off the cost of financial services to the citizens of all E.U. citizens. While cross-border competition has improved their access to a more diversified portfolio of services and financial products, cross-border integration should bring about significant economies of scale and scope, reducing costs and improving efficiency in the system. A more stable international environment and the recovery of economic growth should facilitate a process that, most certainly, will not be easy.

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Appendix

Table 1 Number and Value of Mergers and Acquisitions Worldwide, 1990-2001

	1990-1995		**1996-2001**	
	Number	**$ Billions**	**Number**	**$ Billions**
Australia	136	4.5	268.0	25.20
Belgium	67	4.5	70.0	32.90
Canada	156	3.9	321.0	36.00
France	314	25.5	227.0	73.70
Germany	234	11.0	379.0	82.60
Italy	251	24.8	236.0	97.60
Japan	46	45.4	491.0	138.10
Netherland	123	14.5	88.0	33.90
Spain	120	8.3	153.0	34.20
Sweden	84	4.1	21.2	38.00
Switzerland	111	4.9	87.0	35.20
UK	386	41.4	750.0	226.10
USA	2,341	205.3	2,902.0	1,138.20
Industrial countries*:	**4,369**	**398.2**	**6,053.0**	**1,974.90**
Euro area:	**1,317**	**99.8**	**1,406.0**	**412.30**
World	**5,725**	**460.9**	**9,777.0**	**2,232.90**

Note: *G10 countries, Australia and Spain.

Source: Amel et al. (2002).

Table 2 Annual Number and Value of M&As Involving a Financial Firm as the Target, That had a Reported Value of at Least

	USD 1 billion (1991-1999)								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Number	10	6	11	14	23	21	49	58	46
Value	22.1	12.4	39.7	23.7	113	59	233	431	291
Average value	2.21	2.07	3.61	1.69	4.913	2.81	4.76	7.43	6.33

Source: Thomson Financial, SDC Platinum, and own elaboration.

Table 3 Number and Value of Mergers and Acquisitions of Banks and Insurance Companies Worldwide, by Sub-periods: 1990-1995 and 1996-2001

	Banks**				Insurance companies **			
	1990-1995		1996-2001		1990-1995		1996-2001	
	Num.	$ Bn.	Num.	$ Bn.	Num.	$ Bn.	Num.	$ Bn.
Australia	53	2.4	91	13.2	23	1.1	22	3.3
Belgium	21	0.8	34	28.1	18	2.7	12	1.0
Canada	52	1.6	112	15.0	19	0.9	42	8.8
France	148	11.8	96	44.6	21	2.9	42	21.0
Germany	123	2.4	229	68.6	39	6.2	46	12.7
Italy	147	19.2	138	80.4	33	4.9	44	13.4
Japan	29	19.2	236	119.1	2	0.2	48	15.3
Nether.	36	44.4	24	5.9	38	3.3	22	21.9
Spain	66	10.9	67	31.2	35	2.3	42	1.1
Sweden	44	5.9	17	6.0	7	81	3	2.7
Switzer.	81	2.8	43	24.2	9	1.2	14	9.7
UK	140	3.3	27	114.4	77	2.0	141	76.0
USA	1691	156.6	1796	754.9	275	25.6	364	192.5
Indust. count.*	2631	295.1	3183	1317.0	596	53.3	845	379.4
Euro area	655	59.6	700	302.8	227	24.1	249	79.2
World	3363	340.3	4781	1495.0	773	62.1	1328	418.7

Note: *G10 countries, Australia and Spain.
**The sectors refer to that of the target.

Source: Own elaboration, using data reported by Amel et al. (2002).

Table 4 Expected Synergies from Recent Years Banking M&As in the European Union

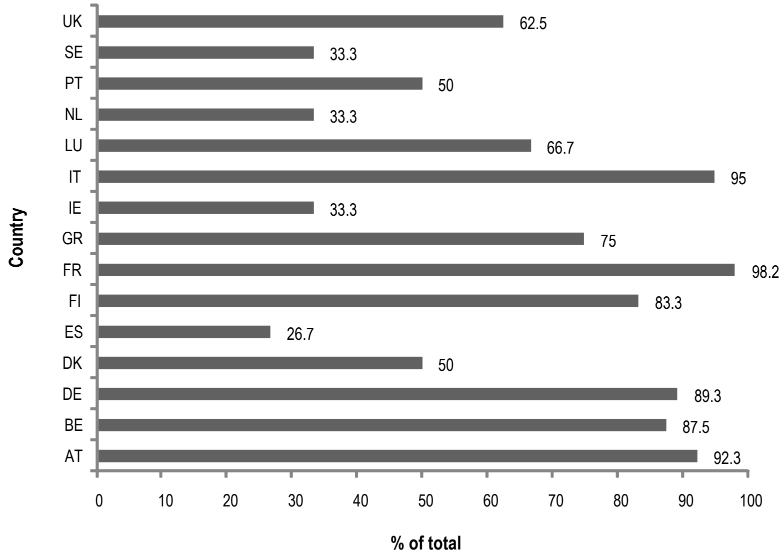
Participating banks	**Year**	**Expected synergies (M€)**	**Synergies from income (%)**	**Synergies from costs (%)**
SCH/Abbey	2004	560	20	80
Crédit Agricole-Crédit Lyonnais	2002	760	0	100
Caisses d'Epargne-CDC IXIS	2001	500	85	15
Allianz-Dresdner	2001	1,080	88	12
Halifax-Bank of Scotland	2001	1,113	51	49
Dexia-Artesia	2001	200	15	85
HBV-Bank of Austria	2000	500	0	100
RBoS-Natwest	2000	2,335	17	83
BNP-Paribas	1999	850	18	82
BBV-Argentaria	1999	511	0	100
Intesa-Comit	1999	1,000	50	50
Banco Santander-BCH	1999	630	0	100

Source: Pujals (2005) and own elaboration.

Table 5 Domestic Mergers and Acquisitions Among Large European Union Countries' Banking Groups during the 1990s

Country	Banking group
Spain	BSCH (Santander + Central Hispano + Banesto) BBVA (Bilbao Vizcaya/Argentaria)
Austria	Bank Austria (Bank Austria + Creditanstalt) Erste Bank (Giro Credit + Erste SparCasse)
Italy	SanPaolo IMI (I.B. SanPaolo di Torino + IMI) Banca Intesa (Banco Ambrosiano Veneto + Cariplo + CPP) + BCI; Unicredito Italiano (Credito Italiano + Unicredito)
Germany	HypoVereinsbank (Bayerische Vercinbsbank + HypoBank); Deutsche Bank + Bankers Trust
France	BNP-Paribas (BNP + Paribas); Banque Populaires + Natexis Crédit Mutuel + CIC; Caisse d'Epargne + Crédit Foncier Société Générale + Crédit du Nord; Crédit Agricole + Banque Sofinco + Banque Indosuez
Portugal	Banco Comercial Portugues + Banco Portugues do Atlantico; Caixa Peral de Depositos + Banco Pinto & Sotto Mayor
Belgium	KBC (Kredietbank + Cera); Bacob + Artesia Bank
Netherlands	ABN-Amro (ABN + Amro)
Denmark	Unibank (Unibank + Tryg-Baltica)
Alliances/ minority stakes	BSCH-Royal Bank of Scotland-SanPaoloIMI-SG-Commerzbank-Champlimaud Crédit Agricole-Crédit Lyonnais-Banca Intesa BBVA-Banco di Napoli-BNI-Créedit Lyonnais ABN-Amro-Banca di Roma

Source: Own elaboration, based on various company reports, financial press releases, and Agnès Belaisch et al. (2001).



Source: Own elaboration, with data from the European Central Bank (European Central Bank 2000).

Figure 1 Average Percentage of Domestic M&As of Credit Institutions in the European Union, 1995-1999

Table 6 Assets of Five Largest Credit Institutions as a Percentage of Total Assets, 1980-1999

	1980	1985	1990	1995	1996	1997	1998	1999
AT		35.9	34.7	39.2	39.0	48.3	50.1	50.40
BE	54.0	48.0	48.0	51.2	52.2	53.9	72.5	77.40
DE			13.9	16.7	16.1	16.7	19.2	19.00
DK	62.0	61.0	76.0	72.0	72.0	72.0	76.0	77.00
ES		35.1	34.9	47.3	46.0	45.2	44.6	51.90
FI	37.0	38.0	41.0	70.6	71.7	72.7	73.5	74.30
FR		46.0	42.5	41.3	41.2	38.0	39.2	42.70
GR		80.6	83.7	75.7	74.5	71.8	72.8	76.60
IE	59.1	47.5	44.2	44.4	42.2	40.7	40.1	40.80
IT			29.2	36.4	32.1	30.7	38.7	48.30
LU	31.1	26.8		21.2	21.8	22.4	24.6	26.10
NL		72.9	73.4	76.1	75.4	79.4	81.7	82.30
PT	60.0	61.0	58.0	74.0	80.0	76.0	75.2	72.60
SE		80.8	82.7	86.5	86.5	86.8	85.7	88.20
UK			28.3	28.3	29.1	28.3	27.8	29.07
Average	37.9	52.8	50.9	51.8	52.0	52.2	54.8	57.10

Source: European Central Bank (2000, p. 42).

Table 7 Herfindahl Index for European Countries Banks' Assets, 1985-1999

	1985	1990	1995	1996	1997	1998	1999
AT		0.0363	0.0437	0.0445	0.0831	0.0983	0.1016
BE			0.0637	0.0670	0.0700	0.1310	0.1552
DE					0.0112	0.0134	0.0136
DK			0.1211	0.1186	0.1164	0.1337	0.1363
ES	0.0373	0.0352	0.0528	0.0503	0.0496	0.0488	0.0716
FI			0.1786	0.1793	0.1814	0.2041	0.1910
FR			0.0421	0.0437	0.0449	0.0485	0.0509
GR	0.2469	0.2496	0.1778	0.1664	0.1534	0.1539	0.1513
IE			0.0650	0.0580	0.0500	0.0470	0.0480
IT	0.0161	0.0140		0.0313	0.0308	0.0409	0.0600
LU					0.0202	0.0224	0.0237
NL	0.134	0.1169	0.1603	0.1536	0.1654	0.1802	0.1700
PT	0.1118	0.0960	0.1397	0.1491	0.1299	0.1307	0.1234
SE	0.196	0.2250	0.1950	0.2000	0.2040	0.2010	0.1951
UK	0.0156	0.0194	0.0191	0.0206	0.0207	0.0216	0.0263
Average	**0.1082**	**0.0991**	**0.1049**	**0.0986**	**0.0887**	**0.0984**	**0.1012**

Source: European Central Bank (2000).

Table 8 Large Financial Institutions Cross-Border Mergers and Acquisitions in the European Union, until 2007

Combined institutions	Countries involved	Year of merger or acquisition
Dexia	Belgium France	1996
Fortis	Belgium Netherlands Luxembourg	1990
Nordea	Sweden Finland Denmark Norway	1997-2000
BSCH-Banco Totta&Azores	Spain Portugal	1999
HVB-Bank of Austria	Germany Austria	2000
HSBC-CCF	U.K. France	2000
ABN Amro-Banca Antonveneta Spa	Netherlands Italy	2005
BNP-Banca Nazionale del Lavoro Spa	France Italy	2006
Barclays-Banco Zaragozano	U.K. Spain	2004
Santander-Abbey	Spain U.K.	2004
Unicrédito-HBV	Italy Germany	2005
Danske Bank A/S-Northern Bank Ltd.	Denmark U.K.	2005
Santander/Royal Bank of Scotland/Fortis - ABN Amro	Spain U.K. Benelux	2007

Source: Own elaboration with data from annual reports, journal articles and internet references.