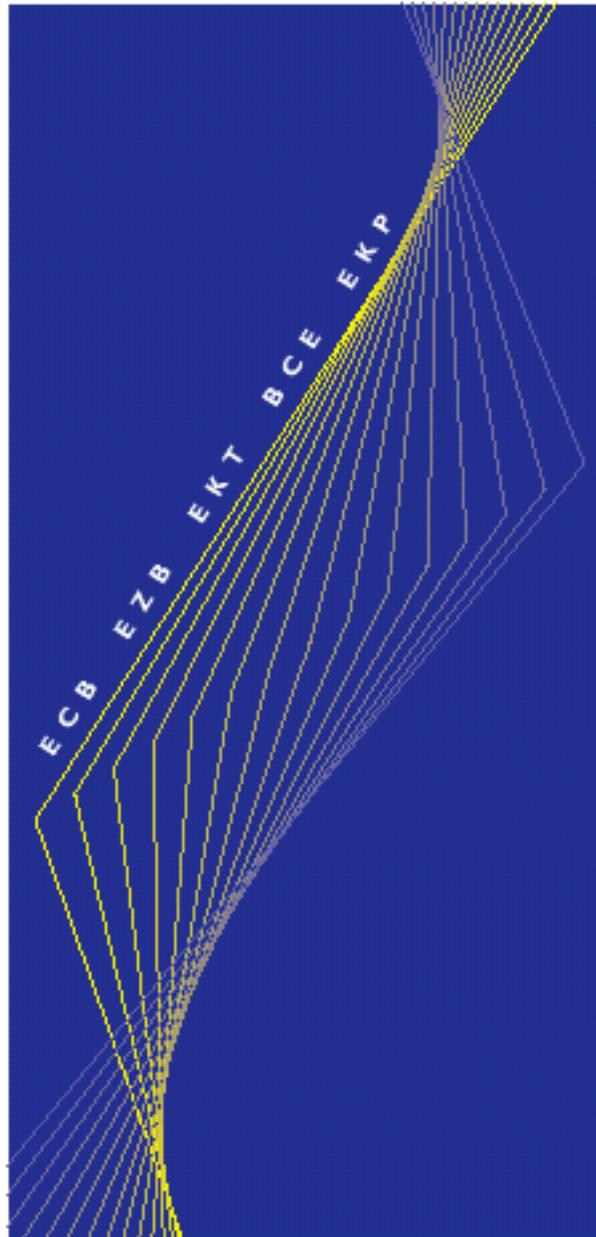




EUROPEAN CENTRAL BANK



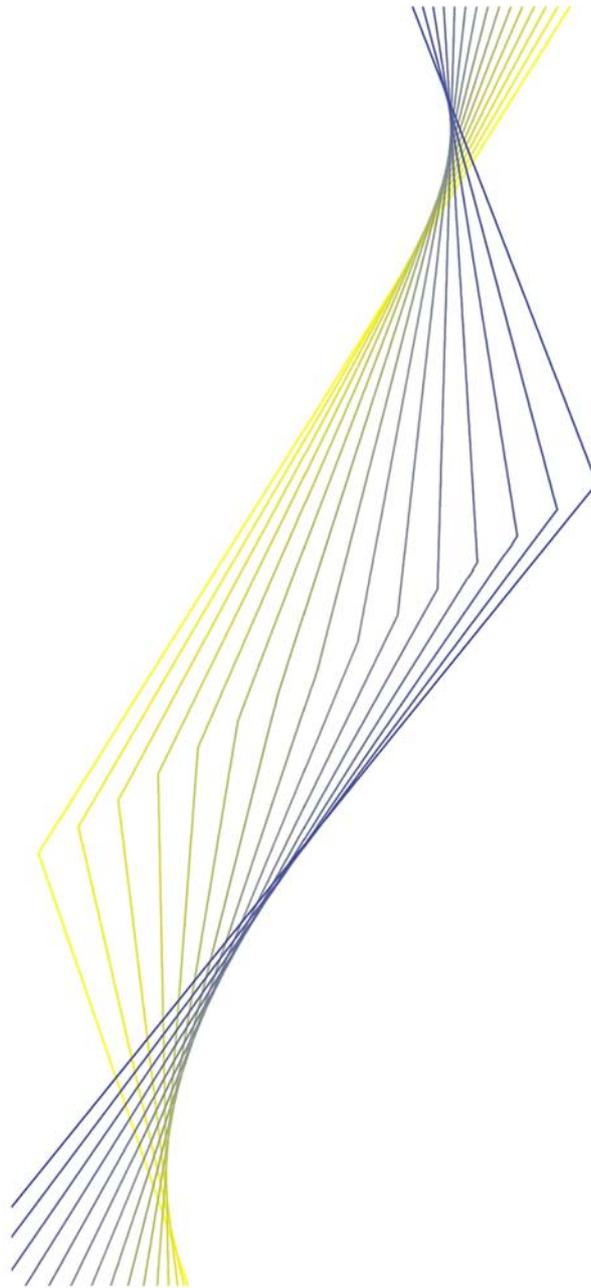
**MERGERS AND ACQUISITIONS
INVOLVING THE EU BANKING
INDUSTRY – FACTS AND
IMPLICATIONS**

December 2000





EUROPEAN CENTRAL BANK



**MERGERS AND ACQUISITIONS
INVOLVING THE EU BANKING
INDUSTRY – FACTS AND
IMPLICATIONS**

December 2000

© European Central Bank, 2000

Address	Kaiserstrasse 29 D-60311 Frankfurt am Main Germany
Postal address	Postfach 16 03 19 D-60066 Frankfurt am Main Germany
Telephone	+49 69 1344 0
Internet	http://www.ecb.int
Fax	+49 69 1344 6000
Telex	411 144 ecb d

All rights reserved.

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

ISBN 92-9181-133-5

Contents

Executive summary	5
-------------------	---

Introduction	8
--------------	---

1	M&As involving European credit institutions – what happens?	9
1.1	Bank M&As	10
1.2	Development of financial conglomerates	13
1.3	Implications for concentration and capacity	16

2	The rationale for M&As – why do they occur?	19
2.1	Headlines from empirical literature on scale and scope economies	19
2.2	Views expressed by the industry in the EU	20
2.3	The economic literature versus the views expressed in the industry	22

3	The way M&As are carried out – how do they happen?	23
3.1	M&As from the credit institution perspective	23
3.2	M&As from an authority perspective	26
3.2.1	Mergers and acquisitions – what is assessed?	26
3.2.2	Exchange of information – who is the assessor?	27
3.2.3	Roles of the “home” and the “host” supervisor	29

4	Implications of M&As for the institutions involved	29
4.1	Advantages for the institutions and the sector as a whole	29
4.2	Risks of M&As – the transition period	30

5	Implications for supervisors	32
---	------------------------------	----

Annex I: Definitions and tables	34
---------------------------------	----

List of tables:	35
-----------------	----

The following country abbreviations are used in the report:

AT	Austria
BE	Belgium
DE	Germany
DK	Denmark
ES	Spain
FI	Finland
FR	France
GR	Greece
IE	Ireland
IT	Italy
LU	Luxembourg
NL	Netherlands
PT	Portugal
SE	Sweden
UK	United Kingdom
US	United States

Executive summary

This report – prepared by the Banking Supervision Committee of the European System of Central Banks – investigates mergers and acquisitions (M&As) in the EU over the past five years.¹ It looks into the development of corporate structures in banking, including, where relevant, bancassurance. The analysis addresses the rationale of M&As, the way in which they have been achieved – inter alia, against the background of the European legal framework – and their implications in terms of short and long-term advantages and risks for EU banks. Finally, the implications for supervisors are touched upon.²

Four different types of M&As have been distinguished in this report: domestic and international bank M&As and M&As leading to domestic and international conglomeration. The bulk of M&A activity carried out in the EU involves domestic bank M&As and, among these, M&As between smaller institutions. It is noteworthy that most operations (around 80%) were concentrated in four Member States (DE, IT, FR and AT) during the observation period. The evolution in the number of M&As during the observation period shows a clear increase in 1998 and 1999 compared with the three previous years and there is information to suggest that the values involved in M&As are increasing, indicating the involvement of larger institutions. This trend is supported by external data sources as well.

Another noteworthy feature is that, according to the number of transactions (little value-based information is available to measure the size of acquisitions abroad), international bank M&As are more often carried out outside the European Economic Area (EEA) than within it. EEA banks seem to seek profits by expansion into emerging markets. The fact may also hint that for some banking activities the relevant market is the world more than the EEA (e.g. asset management). Banking and conglomeration-related M&As within the EEA have often been aimed at the creation of regional groups. Fortis, Dexia and MeritaNordbanken are good examples of this kind

of operation. Over the observation period, there is little evidence of a trend towards cross-border M&As within the EEA, EU or euro area. It seems that in many countries banking groups have first sought to consolidate their position within national borders before making a strategic move to respond further to the creation of the single market and the introduction of the single currency. This view needs to be differentiated somewhat, since there are specific developments in individual countries or regions. For instance, in some of the smaller Member States the process of industry concentration and consolidation seems to have taken place at a faster pace and earlier than in some of the larger Member States.

Conglomeration (i.e. the process leading to the creation of groups of financial companies operating in different sectors of the financial industry) has also been observed. This partly reflects, however, a wide notion of financial conglomerate adopted in the report that includes also structures with a limited degree of integration (as for instance in the case of a large bank acquiring a small insurance company). Against this background, it is noted that banks have most actively been expanding into the businesses of investment management and asset management and often through investments to establish new enterprises. M&As have, however, become more important in recent years in the formation of complex groups. The development of financial conglomerates combining banking and (life) insurance has also been found to exist in most Member States. The report shows that the process of conglomeration is predominantly bank-driven. In most conglomerates banking assets and revenue from banking dominate, but there are also examples of insurance-dominated groups.

An increase in concentration, particularly for large countries, is observed in the reference period. The increase is linked to the M&As that have been observed in these countries. A certain relationship seems to exist between the size of the country, concentration and M&A activity. The

¹ The observation period for this report is from 1995 to the first half of 2000 (inclusive).

² The analysis is based on data collected from EU central banks and supervisory authorities. Given that the data have not been gathered on the basis of an agreed statistical framework, but rather as an ad hoc exercise to serve as information for this report, they should be interpreted with due caution.

relationship is that smaller countries tend to have high concentration ratios (measured by both the Herfindahl indicator or by way of comparing the total assets (or alternatively loans/deposits) of the five largest banks with total banking assets) and M&A activity tends to be lower in highly concentrated markets. No evident link between M&As and capacity indicators was found.

With regard to the rationale for M&As, there is a need to differentiate according to the type of M&A, the size of the institutions involved and, in case of a cross-border operation, the “target region”. Small bank M&As are mostly being carried out for cost efficiency reasons (economies of scale) and to achieve a size that allows survival; for the sector as a whole they carry the advantage of mopping up excess capacity. Larger bank M&As often have an element of strategic re-positioning and, like small bank M&As, are driven by considerations of economies of scale. Conglomeration is intended to diversify the risks and to smooth income volatility. There are also benefits of combining banking and life insurance business in the linking of enterprises with predominantly short-term liabilities and long-term assets (banks) with enterprises that have an inverse term transformation (insurance). The optimisation of the use of different distribution networks is identified as a further motivation for the creation of bancassurance groups. On occasion, the operations are also targeted at the acquisition of technological or other skills.

As regards the way M&As are being carried out, the more interesting observations relate to cross-sector and cross-country operations. There, a tendency was observed for M&As to result first in a relatively complicated structure that is later simplified and streamlined. The initial complicated structure proposed in connection with M&As is influenced by the need to obtain approval from management and owners, or by other specific reasons (e.g. taxation). For more complex groups a holding structure is often chosen. Supervisors are actively involved in the M&A process including the authorisation stage. There is a well-defined framework of legislation that ensures complete information to the supervisory authority on the parties involved, the envisaged structures and

business plans. EU legislation foresees a notification procedure in the case of the acquisition of participations in EU-regulated financial enterprises (credit institutions, investment firms, investment management companies and insurance undertakings) that exceed thresholds. According to EU legislation, the competent authorities have a right to veto the operation if, in view of the need to ensure sound and prudent management of the institution, they are not satisfied as to the suitability of the acquirer or as to the transparency of the new group.

For the enterprises involved in M&As, a number of risks arise during the transition period, i.e. immediately before and after the M&A. Generally, risks related to M&As increase with the complexity of the operation: a “simple” domestic bank merger is at the lower end of the transition risk spectrum compared with a large-scale cross-border operation. Supervisory authorities have pointed to a variety of operational issues that need attention and monitoring during M&As, including the operational risks that stem from the integration of risk management, customer and accounting systems – both the procedures and the information technology basis – and the adaptation of control procedures.

Turning a merger or acquisition into a success may be difficult owing to the challenges inherent in virtually all fields of management of a financial service enterprise. Dealing with cultural differences among staff or lines of business or, in the case of cross-border or cross-sector M&As, differences in regulatory and accounting systems, requires high-level skills and significant resources. There is also the risk of loss of key staff and/or clients. It may be on account of the above risks that “friendly” M&As are more common than hostile takeovers in the financial services sector. Acquisitions with the objective of increasing efficiency and achieving cost savings may risk being less successful than anticipated, owing to the complexity of the operation (including risks of personal or cultural clashes) or to other reasons such as labour market rigidities. All above has led many observers to conclude that M&As are far from always “successful”.

M&As have positive implications for the industry involved. As such they are an indication that the industry is responding and adapting to pressures for change. The possibility of a takeover can exert a healthy incentive for managers to optimise the efficiency and service of the enterprise and hence enhance the shareholder value. Internal structures and corporate governance of financial institutions in the M&A process also require careful consideration on the part of supervisors, who will wish to ensure an effective internal organisation and allow for the ensuing group to be adequately supervised.

With regard to the implications for prudential regulation and supervision, a continued monitoring of rules, regulations and practices is important to ensure that an adequate framework is in place for a level playing-field between financial institutions from different sectors of the industry and between different Member States. The current framework for “home” and “host” country supervision works well. Continued monitoring can eliminate undue supervisory arbitrage. Work is under way in EU policy-making and at the wider international level to develop further prudential regulation of financial conglomerates.

The existence and anticipated further development of financial conglomerates (also cross-border) calls for closer supervisory co-

operation. Already the current EU legislation provides for a close co-operation between supervisors. A network of memoranda of understanding of different types – both at the domestic and the international level – is in place in order to cater for such co-operation.

The risk of contagion – shocks to one part of a group endangering the group as a whole – is an issue raised in relation to financial conglomerates, for instance bancassurance groups. Contagion might increase the cost of rescue operations for deposit guarantee schemes offered to depositors of banks in countries where financial conglomerates exist. In this context, contagion risk will not necessarily lead to regulatory conflicts; if regulators of banking and insurance business work together, a co-operative solution can be found. Supervisors already co-operate to limit the way in which risks may spread, i.e. through the setting of limits on large exposures and intra-group exposures and awareness that a holding company structure might be beneficial in this context.

The report also points to a need for continued monitoring of capital adequacy, which is typically affected by M&As. The effect on capital adequacy is likely to be highest in acquisitions, where payment to shareholders in the acquired entity can be effected by way of cash or other means, often shares.

Introduction

This report describes mergers and acquisitions (M&As) involving the European banking sector over the past five years and has been prepared by the Banking Supervision Committee (BSC)³ in the context of the task of the Eurosystem to contribute to the smooth conduct of policies pursued by the competent authorities relating to prudential supervision of credit institutions and the stability of the financial system (Article 105 (5) of the Treaty establishing the European Community). The questions “what” happened, “why” and “how” did it happen, and what are the implications, are discussed. In this context, the phenomenon of “bancassurance” is given particular attention. The analysis was based on quantitative and qualitative information from central banks and banking supervisory authorities relating to the years 1995 to 2000 (including the second quarter).

M&As within the financial industry are currently widely discussed in the media and academia. This may be because they involve large European institutions, are cross-border or cross-sector, and involve, in particular, insurance or asset management activities. The context, scope and purpose of M&As seem to have changed in recent years.

M&As are not confined to the banking industry. They take place also in other industries, like, for instance, the media and entertainment sectors, the automobile industry, and the telecommunication sector. Furthermore, the pursuit of development in electronic distribution channels has led to alliances being announced between banking organisations, as well as telecommunication, software and internet companies; some alliances have involved ownership elements.

Until the 1980s the financial industries in most EU Member States operated in highly regulated markets and government ownership played a more significant role. The market for corporate control was less developed at that time. A bias existed towards stability of ownership structures and cross-shareholdings in some countries. At the same time, markets for

banking services were predominantly local by nature. All in all, the environment prevailing until the 1980s limited M&As as efficient ways to change the strategies of relevant players and the structure of the market.

M&As within the financial services sector are, however, not a completely new phenomenon. In a number of EU countries, mergers took place years ago and at that time changed the market structure to a large extent, due to the creation of large national banks. The M&As mostly involved institutions within the same sector of the financial industry, whereas there was widespread discussion about, and an evolution towards, universal banks or financial groups.

M&As are changing the structure of the European banking sector. However, they are not a driving force for change themselves. M&As are responses to the driving forces for change and to changes in market structures. The driving forces have been identified in previous reports by the Banking Supervision Committee. These include, for instance, information technology, disintermediation, and the integration of international capital markets, where the creation of the single currency is especially relevant in Europe.

This report is structured in five sections. Section 1 describes what has happened in recent years by presenting the facts of M&A activity in the European banking sector, identifying – for EU Member States – differences and similarities in, for example, M&A activity domestically and abroad; M&As of small or large institutions; and M&As leading to the creation of financial conglomerates. The section also looks at concentration and capacity indicators. Section 2 focuses on the rationale for M&As – why they take place. Section 3 is devoted to the way M&As are carried out. Section 3.1 deals with the

³ Other reports prepared by the BSC include “Possible effects of EMU on the EU banking system in the medium to long term”, February 1999; “The effects of technology on the EU banking system”, July 1999; “EU banks’ income structure”, April 2000; and “Asset prices and banking stability”, April 2000. All reports are available on the website of the European Central Bank (www.ecb.int).

management of M&As by the institutions involved. Section 3.2 reviews the involvement of authorities in M&As, including the relevant European legal framework. Section 4 discusses the implications of M&As for banks in terms of risks and advantages for the whole sector.

Section 5 includes a review of implications for supervisors. The report is accompanied by an annex, which provides a number of tables on developments in the observation period and definitions applicable to the data presented in the report and the annex.

I M&As involving European credit institutions – what happens?

The M&A activity in Europe shows different patterns depending on the market sectors (mutual banks, publicly owned banks, savings banks), the size of the market and thus the relative size of the institutions by international comparison. The EU countries have also, in the past, experienced their own specific pace and history of banking system re-structuring. Before studying the recent developments, some of these patterns may be recalled since they can, to an extent, explain these recent developments.

During the late 1980s and early 1990s a restructuring and concentration process took place in a number of smaller EU countries such as NL and DK. This process led to the creation of large national institutions, ready to compete in the Single Market or a regional part of it. In the early 1990s, in the wake of the Scandinavian banking crisis, M&As to create large institutions took place in SE and FI. The UK banks were not as small in international comparison, but a cycle of M&As also took place in the late 1980s and early 1990s. In Spain, a similar process took place during the early nineties, involving especially savings banks. In the same period in many countries privatisation efforts were

pursued, in the wake of which many publicly owned banks were sold to private investors. Moreover, a tendency arose for institutions with a mutual ownership structure to “demutualise”; in some countries (such as the UK and IE and, to some extent, DK and DE) institutions (e.g. building societies and savings banks) that had a mutual ownership organisation abandoned this organisational form and converted their corporate ownership to other private legal forms. Both privatisation efforts and “demutualisation” have increased the scope for M&As by increasing the number of institutions that can legally participate in M&As.

Another pattern of M&As is characterised by geographic expansion into emerging markets like South-East Asia, central and eastern Europe and Latin America. EU banks, to some extent, expanded into the emerging countries with which they had historical connections – e.g. IT, ES and PT into Latin America, whereas the expansion into central and eastern Europe was more cautious.

The analysis of M&As has been carried out following, as a rule, a matrix capturing the industry sector and country dimensions as follows:

Between credit institutions	<p>Domestic bank M&As</p> <p>M&As involving credit institutions located in the same country.</p>	<p>International bank M&As</p> <p>M&As involving credit institutions located in different countries, one of which is an EU country.</p>
	<p>Domestic conglomeration</p> <p>M&As between credit institutions and insurance companies and/or other financial institutions all located in the same country.</p>	<p>International conglomeration</p> <p>M&As between credit institutions located in an EU country and insurance companies and/or other financial institutions located in another country.</p>
Across sectors		

1.1 Bank M&As

The total number of M&As shows a clearly higher number of transactions in 1998 and 1999 compared with the previous three years. This is mainly due to the number of domestic M&As. The 1999 figures for M&As for EEA and third countries are clearly above the previous years, but it is too early to speak of a trend. It is remarkable that around 80% of total M&As

have involved credit institutions from DE, IT, FR and AT. These four countries also have the highest number of credit institutions among Member States.

Table 1

Number of total bank M&As

(domestic and international)

	1995	1996	1997	1998	1999	First half 2000
Total bank M&As	326	343	319	434	497	234
– of which domestic	275	293	270	383	414	172
– of which within EEA	20	7	12	18	27	23
– of which with third country	31	43	37	33	56	39

If we consider the number of M&As, another striking feature is that more than 80% of M&As are domestic. Of the foreign M&As, the majority are with third countries outside the European Economic Area.

Domestic bank M&As

In summary:

- Domestic M&As mainly occur between smaller institutions, indicating a mop-up of excess capacity.
- Consolidation of smaller institutions has been a phenomenon during the whole period.
- M&As of large institutions are increasing both in absolute and relative terms, thereby affecting the market structures in some Member States.
- The number of M&As was clearly higher in 1998 and 1999 compared with the three previous years and upward shifts in values of M&As have been observed in a number of countries, indicating a wave of mergers among larger institutions.

Looking more closely at domestic bank M&As, it may be observed that 1999 (with 497 M&As) was a peak year. When studying the size of M&As (differentiating between “small” and “large” M&As),⁴ it is the small operations that outnumber large ones. This may be explained by the fact that small institutions outnumber large institutions by far. Chart 2 below exhibits the share of small and large domestic M&As. Since 1996, however, there has been a slight trend towards larger M&As. Although data on the assets involved in M&As are not available for all Member States, there are indications that the “large” M&As increasingly involve very large domestic institutions.

Chart 1
Geographic breakdown of M&A

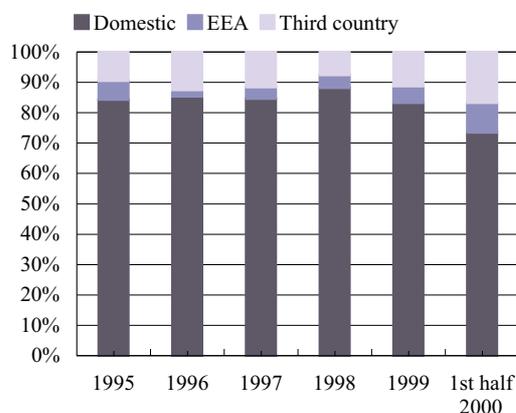
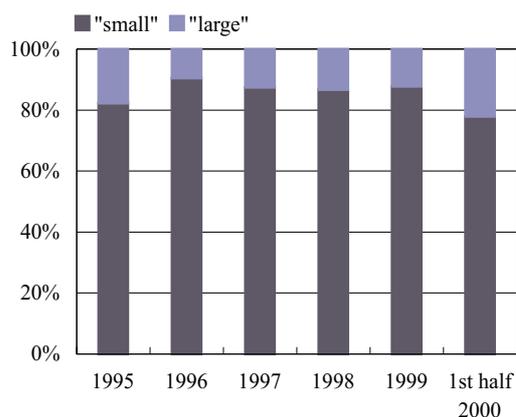


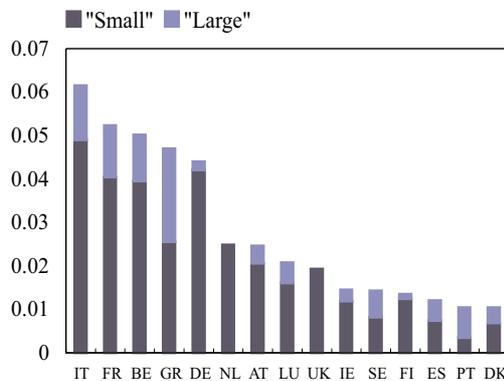
Chart 2
Breakdown of domestic M&As by size



⁴ “Large” M&As are defined as M&As involving enterprises with assets of EUR 1 billion and above (note that this includes M&As involving (very) large, but also medium-sized and relatively small institutions), whereas “small” M&As involve enterprises with assets of up to EUR 1 billion. Only one enterprise involved in an M&A needed to qualify as “large” for the M&A to be counted as a “large” M&A. The general growth of the banking sector in nominal terms contributes – as a rule – to an increase in the number of “large” M&As: however, this effect will be limited in the relatively short observation period.

Chart 3

Number of domestic M&As/number of credit institutions – average for 1995–99



Note: The ratio shown in chart 3 is derived on the basis of number of "large" and "small" M&As in Table 1.5 and 1.6 in the annex, respectively, and the number of credit institutions in Table 3.1. A simple average for 1995-99 is calculated using year-by-year ratios. Information about "large" M&As is not available for the UK.

Chart 3 complements the above comparison (based on absolute numbers) by relative number of M&As. Chart 3 shows the ratio of M&As to the number of credit institutions as an average over the years 1995 to 1999. In relative terms, and judged by the number of operations alone, leaving aside possible effects on market structure and competitive changes, the Italian banking system has been one of the most "affected" by M&As from 1995 to 1999.

Information about the value of M&As is available to a limited extent only. The possible effect of M&As on domestic market structures has been estimated by relating the assets of the new institution(s) to the total assets of the banking system.⁵ A large percentage of assets involved in M&As tends to indicate an involvement of large domestic players, which, when they are involved, will have a larger influence on the market structure than small institutions. The effect on regional retail clients may be equally important in case of M&As between small regionally specialised institutions, but the overall competitive effect on the market will, ceteris paribus, be larger when the size of the institution increases.

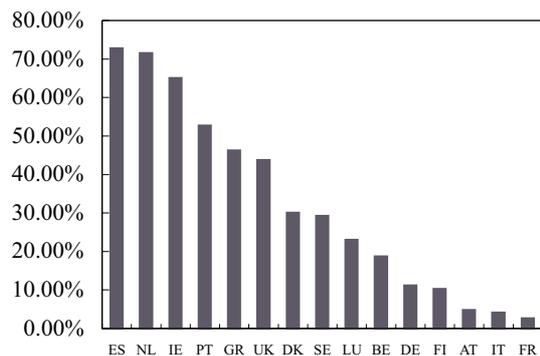
For domestic M&As larger values tended to be involved during the period from 1995 to 1998, indicating that it is not only the very small

institutions that are involved in M&As, at least on an aggregate basis. A development of increased values may therefore have taken place. There are, however, large differences among EU Member States, both at the level of banking assets involved in M&As and in the trends towards either increases or declines. Upward shifts in the values have been observed in AT, BE, DE, FR, IT and LU, but with assets ranging from less than 5% of banking assets involved in DE to more than 50% in FR in 1999.

Around 30% of banking assets were involved in domestic bank M&As in 1998 in FI and GR, whereas a figure of 20% was observed for ES in 1999. From 1996 to 1999 percentages were between 20% and 60% in French mergers. Lately, all these markets have thus undergone quite some changes. Clear downward movements in relation to values (and numbers) have occurred in PT and SE. More than 40% of Swedish banking assets were involved in domestic M&As in 1997.

Chart 4

Number of foreign M&As as percent of total M&As – average for 1995–99



5 Measuring values of M&As relative to the domestic system provides an indication of the impact of M&As on the domestic banking system and differences across countries. Values of M&As may also be expressed by the nominal value of transactions. In the BIS Quarterly Review, August 1999, the M&A activity in the banking sector is expressed as the value of transactions in USD billions, provided by the Securities Data Company. The review shows an increase in values from USD 17.5 billion in 1991-92, over USD 14.6 billion in 1993-94 and USD 19.1 billion in 1995-96 to USD 100.4 billion in 1997-98 for the euro area (excluding AT, IE, LU and PT). In 1997-98 USD 32.5 billion was recorded in BE, USD 23.2 billion in DE and USD 30.1 billion in IT, respectively. Judging by nominal values, there has been a clear increase in the latter years and hence a merger wave may be said to have taken place.

International bank M&As

In summary:

- Far fewer international bank M&As have taken place than domestic bank M&As.
- Measured by number, international bank M&As were mainly outside the EU area.

In absolute terms international bank M&A activity accounted for far fewer operations than domestic bank M&A activity in the EU during the period from 1995 to 1998. M&As within the EEA/EU and euro area seem to have only picked up recently. Chart 4 shows the relative importance of international bank M&As compared with total bank M&As. The operations were carried out by way of acquisitions and not mergers. Acquisitions also represent larger deals than mergers.

When comparing the direction of foreign acquisitions, third countries have, often in the search for markets offering higher margins, been more common targets for European banks over recent years than other EEA countries. European banks have expanded into Latin America (e.g. NL, ES, PT and IT), South-East Asia (e.g. NL) and central and eastern Europe (e.g. NL, IE). In some cases they have also expanded into developed markets such as the US (i.e. DE). The size of the banks involved is increasing, as is the importance of intra-EEA M&As.

With regard to the values of international M&As, whether within the EEA or with third countries, even less information has been available than on domestic M&As. Again, the measurement is the outstanding amount of domestic assets involved in M&As. This measurement does not provide information about the size of the third country institution, which might therefore be a small regional bank or a bank such as Bankers Trust (taken over by Deutsche Bank). As mentioned in connection with the analysis of numbers of M&As, there are far fewer deals to observe internationally than domestically, thereby limiting possible interpretations of trends on an aggregate level. It should be noted that singular large deals may result in very significant amounts of assets being involved. For example, a deal like the creation of

MeritaNordbanken in 1998 involved almost 50% of Finnish domestic banking assets. The holding company of MeritaNordbanken acquired Unidanmark in the first half of 2000. The latter deal was reflected in the Danish figures (as an acquired institution) as well as in both the Finnish and the Swedish figures (as an institution acquiring an EEA institution). In DE 29% of banking assets were involved in EEA acquisitions in 1995 and between 12% and 24% from the beginning of 1997 to 1999. Elsewhere, M&As within the EEA have involved banking assets of almost 10% in ES in 1996 and more than 10% in IE in 1995 and 1997.

As for M&As with institutions located in third countries, which have outnumbered M&As within the EEA, ES is an important and stable investor, and between 17% and 26% of domestic banking assets were involved during the whole period under observation. The large banks in DE have also expanded into third countries and between 13% and 35% of assets were involved during the observation period. In 1995-97 and the first half of 1999 more than 10% of Irish banking assets were also involved in third country acquisitions, whereas the Dutch banks entered into international bank M&As with between 24% and 44% of Dutch banking assets from 1998.

1.2 Development of financial conglomerates

M&As leading to the establishment of a financial conglomerate are qualitatively different from pure banking M&As, since they lead to the creation of a group which is active in different sectors of the financial industry. The largest and/or “leading” company in a conglomerate may be a credit institution, an insurance company, a holding company or another financial institution.⁶ Financial conglomerates may be created by way of M&As or by a financial institution setting up a company in another sector, e.g. a bank setting up an insurance company to expand into the insurance sector. The creation of a financial conglomerate is not the only way of offering financial services of different character in a jointly

⁶ See the annex for definitions.

organised way. Co-operation agreements between, for instance, a bank and an insurance company may achieve similar results. Such co-operation agreements are common in many Member States. They are often found to be precursors for integration involving ownership elements.

Akin to but different from conglomeration is the establishment of jointly owned enterprises offering specialised financial services. In some Member States savings banks and co-operative banks have set up such jointly owned enterprises that provide asset management, stock-broking and settlement activities as well as insurance, all of which are sold to or distributed by the member institutions of the sector. An example would be the jointly owned investment management firm of the savings bank sector in a country. In economic terms, such jointly owned enterprises provide equal opportunities of marketing and servicing as financial conglomerates. The development of such enterprises as well as co-operation agreements is common, e.g. in countries such as AT and DE, with specific sub-sectors of the banking industry involved, e.g. savings banks and co-operative banks.

Both alternative forms of provision of whole-range financial services should be borne in mind when considering the process of conglomeration as described below. The alternative forms have not been captured in the data on conglomeration considered below. Generally, caution is important when considering and interpreting data on conglomeration. They have been collected from a banking supervisory perspective and therefore some M&A activities involving other sectors might have been omitted. Furthermore, data have not been available in all Member States and a broad definition of financial conglomerates (a group of financial companies operating in different sectors of the financial industry) has been used to capture structural changes in the financial landscape. The size and market importance of individual companies in a financial group may vary. In the case of, for instance, a large bank acquiring a small insurance company, the degree of conglomeration remains rather small.

Domestic conglomeration

In summary:

- Throughout the observation period domestic conglomeration was driven by credit institutions.
- Credit institutions are mainly expanding into asset management and the business of investment services in general. Furthermore, such conglomerates seem to be the most widespread form of conglomeration. In most countries most of the asset management and investment services activities are provided by credit institutions.

In the observation period, credit institutions expanded far more actively into other sectors of the financial industry than did other financial institutions into banking business. This may be due to the barriers to entry, historically, being higher in banking than in insurance. It may also be due to the fact that in many Member States the banking industry is far more developed and larger than the insurance industry. Mergers are virtually never used as an “instrument” to achieve conglomeration. This is not surprising since a mandatory specialisation principle applies to insurance undertakings as well as to undertakings for collective investment in transferable securities (UCITS).⁷ The specialisation principle prevents bank/insurance and bank/UCITS mergers from taking place in a legal sense. The table below sets out the main data found in relation to domestic conglomeration.

⁷ Companies set up in accordance with Council Directive 85/611/EEC of 20 December 1985.

Table 2**Domestic conglomeration**

	1995	1996	1997	1998	1999	First half 2000
Mergers between credit institutions and insurance companies and acquisitions by credit institutions of insurance companies	6	6	11	9	4	6
Credit institutions setting up insurance companies	9	6	4	6	7	3
Insurance companies acquiring or setting up credit institutions	3	4	5	5	4	1
Mergers between credit institutions and other financial institutions and acquisitions by credit institutions of other financial institutions	19	17	24	19	32	22
Credit institutions setting up other financial institutions	28	35	26	22	38	36
Other financial institutions acquiring or setting up credit institutions	0	2	3	5	9	2
Total	65	70	73	66	94	70
M&As as a percentage of total domestic conglomeration	38%	36%	52%	51%	51%	41%

Conglomeration led by credit institutions (credit institutions acquiring an enterprise or setting one up in another sector) had a share of around 60 transactions per year in 1995-97, falling to 56 in 1998, and then rising to 81 in 1999. In the first half of 2000 the number was 67 out of 70 transactions. During the period, expansion into other financial services by way of acquisition increased in importance.

Although these general observations can be made in relation to domestic conglomeration, there are significant national differences. These differences are both in terms of the number of transactions and the method used (M&A or setting-up) for conglomeration. A total of 438 transactions to achieve conglomeration were carried out in the observation period. 78% of these concern IT, UK, LU, PT and GR (listed by number of transactions – from 106 to 43). By contrast, there was a considerably lower number of transactions in FI, NL, AT and DK.

Acquisitions have been the preferred method in the pursuit of conglomeration in IT, IE and BE. Setting up enterprises in new sectors of the financial industry has been preferred in the UK, LU, PT, GR, ES and FR. In SE, the use of the different methods has been balanced.

International conglomeration

In summary:

- It seems that international conglomeration is initiated by credit institutions expanding outside the EEA into, in particular, the business areas of other financial institutions.
- The international expansion has occurred by way of setting up new enterprises and through M&As in a rather balanced way.
- Looking more closely at the breakdown of mergers and acquisitions, acquisitions outnumber mergers.
- There is little international conglomeration activity involving insurance companies.

Banks have also been more actively expanding into other sectors on a cross-border basis than other financial service providers have been into banking. The expansion has been mainly into the business area of other investment services and the management of UCITS, as was found also for domestic

conglomeration. M&As have recently gained slightly in importance with acquisitions being chosen as the legal form. It should be noted, however, that a number of countries have few transactions to report. In other countries figures were not available at all.

Table 3						
International conglomeration						
	1995	1996	1997	1998	1999	First half 2000
Mergers between domestic credit institutions and foreign insurance companies and acquisitions by domestic credit institutions of foreign insurance companies	3	2	2	4	6	9
Domestic credit institutions setting up foreign insurance companies	1	0	0	0	1	5
Foreign insurance companies acquiring or setting up domestic credit institution	1	1	2	2	3	3
Mergers between domestic credit institutions and foreign other financial institutions, and acquisitions by domestic credit institutions of foreign other financial institutions	11	11	13	10	30	15
Domestic credit institutions setting up foreign other financial institutions	16	20	21	23	26	14
Foreign other financial institutions acquiring or setting up domestic credit institution	2	3	6	6	6	3
Total	34	37	44	45	72	49
M&As as a percentage of total international conglomeration	50%	46%	52%	49%	56%	57%

It seems that international conglomeration is carried out equally by way of setting up a new enterprise and through M&As. Credit institutions have tended only to set up other financial institutions abroad, and it is the foreign other financial companies that are setting up domestic credit institutions.

1.3 Implications for concentration and capacity

Developments in concentration may be attributed to M&As, whereas capacity is likely to be influenced by other factors as well, i.e. the setting-up of new companies, technology and labour market conditions. In addition,

there will be an immediate effect on concentration, especially if M&As are between large institutions, whereas there is usually a time lapse of a couple of years before rationalisation is effected and capacity, as measured by the number of branches and employees, is reduced.

Concentration

Concentration has been measured by two different methodologies. In both cases a group approach has been applied; legally independent institutions belonging to one group have been counted as one entity. The simplest methodology is called CR5 – or concentration ratio 5 – and is a measurement of the combined market share of the five largest institutions (for instance, unconsolidated⁸ domestic assets of the five

largest credit institution groups compared with total domestic unconsolidated assets). A more advanced methodology is the Herfindahl indicator, which is described in the box below. Concentration has been measured for total assets, total non-bank loans and total non-bank deposits.

Table 4 summarises the concentration ratios at end-1999. The annex includes available concentration indicators in Tables 2.1 to 2.6 (inclusive) and provides information about developments over time.

⁸ The word “unconsolidated” refers to the fact that only banking assets are included, whereas “consolidated” statements for a financial group would also include assets of non-bank subsidiaries of the credit institution.

Box I

The Herfindahl indicator

The Herfindahl indicator (HI) measures concentration in a market. The similarity between HI and CR5 is that both indicators take the largest institutions mostly into account. The HI achieves this because the importance of the largest institutions is emphasised through the calculation of this indicator, which is equal to the sum of squared market shares, whereas the CR5 takes into account the effective market share of the five largest institutions. The difference is that the HI signals the size structure of the entire banking market, whereas the CR5 only shows the market share of the five largest banks, thus ignoring the size structure in the rest of the market. In other words, the HI takes the so-called tail of institutions into account, by including the entire market, whereas the CR5 disregards institutions other than the five largest. Another disadvantage of the simple concentration ratio (CR_x) is that the setting of the number for the x-largest institutions is arbitrary. Often, CR indicators are for the three, four, five or ten largest institutions. Such distinctions may have a huge impact on the level of the indicator. This drawback does not apply to the HI, since it captures everything (the whole market) in one number.

The CR5 lends itself immediately to interpretation whereas the Herfindahl indicator is, at first sight, somewhat more difficult to “read”. Two illustrations may help: First, the US Department of Justice offers an interpretation of the HI which relates to concentration and is used in connection with competition policy, and divides the market into levels of concentration. The basic assumption is that an HI above 0.18 would be equal to high concentration. Second, a more simple interpretation is that a market with an HI of 0.2 has the same HI as a market equally shared between five banks (the inverse of 0.2).

Table 4**Summary of concentration indicators for end-1999**

	Total assets		Total loans to non-banks		Total deposits to non-banks	
	CR5	HI	CR5	HI	CR5	HI
AT	50.39	0.1016	43.30	0.0725	39.58	0.0541
BE	77.39	0.1552	80.38	0.1671	74.73	0.1352
DE	18.95	0.0136	15.75	0.0124	15.01	0.0090
DK	77.00	0.1363	79.00	0.1538	79.00	0.1499
ES	51.90	0.0716	47.90	0.0592	45.30	0.0542
FI	74.33	0.1910	68.02	0.1741	63.35	0.1900
FR	42.70	0.0509	46.40	0.0665	69.20	0.1333
GR	76.62	0.1513	74.53	0.1290	81.65	0.1828
IE	40.79	0.0480	48.22	0.0610	50.99	0.0700
IT	48.33	0.0600	47.57	0.0590	46.07	0.0575
LU	26.09	0.0237	34.32	0.0415	28.09	0.0283
NL	82.25	0.1700	81.50	0.1601	83.37	0.1877
PT	72.60	0.1234	72.90	0.1296	79.59	0.1635
SE	88.21	0.1951	85.30	0.1768	83.49	0.1599
UK	29.07	0.0263	30.28	0.0355	32.44	0.0276

Generally, both the CR5 and the Herfindahl concentration indicator show the same picture. The level of concentration is highest in the small countries, except for IE and LU (owing to the presence of many foreign banks) and for AT (with a large number of small credit institutions). In FR deposit concentration is equal to that in the small countries and thus much higher than the concentration for total assets and loans in FR. This is partly driven by the so-called “popular savings products”, which form a large part of the deposits and are distributed by a few networks only (such as the *Crédit mutuel* (“*Livret bleu*”) or the savings banks (“*Livret A*”). These savings products benefited so far from a specific fiscal treatment and their interest rate is determined by the government. Another reason is the coverage of territory by mutual banks (like *Crédit Agricole*), which may present an advantage in the collection of deposits.

The development in concentration shows that the level of concentration increased from 1995 up until end-1999 in most countries and, in particular, in AT, BE, DE, ES, IT and LU. A clear

outlier is the UK, where concentration in both loans and deposits fell by around 20% in the same period. The increased concentration corresponds closely to the M&A activity in BE, DE and IT. M&As in BE have, in particular, involved large institutions, and the Belgian market today resembles more the structure of other small countries in the EU. One country that does not correspond to the general development among the small countries is GR, where concentration is declining in all three categories. Against a background of high M&A activity in GR, the explanation is that M&As have mainly involved small to medium-sized institutions, which, at the same time, expanded their business faster than the largest institutions.

Capacity

The number of credit institutions fell in most Member States from 1995 to 1999. Exceptions are IE, where the entry of foreign banks has led to an increase; GR, where new institutions have been established, mainly in the form of co-operative banks; and PT, where there was no

change. The reduction in most countries can be attributed to M&As, but other forms of market exit (such as liquidation) may also have contributed to the reduction. The pace at which the reduction in the number of credit institutions is taking place seems not to have changed significantly during the observation period in spite of an increase in the number of M&As, as indicated in Table 3.1 in the annex.

Owing to historic differences among Member States, there are very different developments and levels of the number of branches. A common trend cannot be identified. Nor is there a clear relation to M&As, even if a time-lag is taken into account (to accommodate a transition period between the operation being carried out and the subsequent change in capacity). Branch numbers increased from 1995 to 1999 in PT, IT, ES and GR, as shown in the annex, Table 3.2. Other Member States showed

a reduction, often a modest one. Over the period from 1990 up to and including 1999 the highest reduction is in smaller countries with relatively high concentration (BE, DK, FI, NL and SE). In the Nordic countries the main reduction occurred in the early 1990s and is more related to cost reductions after the crisis than to M&As.

The number of employees (displayed per 1,000 capita in Table 3.3 of the annex) declined from 1995 to 1999, particularly in FI and the UK, whereas the reduction took place at the beginning of the 1990s in DE and DK. The number of employees was mostly stable from 1997 to 1999. Hence, there seems to be no obvious relation to M&As.

M&As do not, or not yet, show a tangible straightforward effect on standard capacity indicators.

2 The rationale for M&As – why do they occur?

Section 2.1 of this chapter summarises the headlines from the empirical literature analysing the economic effects of M&As. Section 2.2 presents the rationale for the pursuit of M&As in the views expressed in the EU. Section 2.3 compares both views.

2.1 Headlines from empirical literature on scale and scope economies

Most empirical literature is based on evidence from the US. Fewer studies have been performed in Europe, but they have to a large degree reached the same conclusions, which can be summarised in the following points:

- Banks in more concentrated markets usually charge higher rates on small business loans and pay lower rates on retail deposits. Developments in recent years, such as 1) new delivery channels making local markets more contestable, 2) deregulation increasing competition in local markets and 3) products becoming

commodities, thereby making competition more perfect than in the past, may, however, have changed the market power.

- Market power studies that take into account institutions that have recently engaged in M&As show mixed results. The same applies to studies that examine profitability of institutions before and after M&As, compared with similar institutions that did not engage in such activities.
- Studies of economies of scale are able to identify a threshold at which these can be achieved. More recent studies tend to show that the level of the threshold is increasing compared with previous studies. The most obvious reason for this observed upward shift in the optimum size lies in new technologies. Technology is found to change the cost structure tangibly. Regulatory changes, having created larger markets like the lifting of restrictions on inter-state banking in the US and, within the EU, the creation of the euro area, may also play a role.

- Studies generally fail to find economies of scope. Finding the appropriate benchmark (a provider of only one product or service to offer the required cost or revenue function) is a general problem in relation to these studies. The use of one network for distributing a variety of products seems, however, appealing, if the network already exists.
- Studies have shown that inefficiencies are common among banks and that domestic mergers among equally sized partners significantly improved the performance of the merged banks to reach X-efficiency.⁹ Efficiency may therefore be a factor of greater relevance than economies of scale and scope. It should be noted, however, that X-efficiency is not achieved “automatically” but rather through diligent attention to input and output factors. In this context, M&As represent excellent occasions to reorganise the activities of banks to achieve a higher efficiency.

2.2 Views expressed by the industry in the EU

In order to examine the motivation for M&As from an industry perspective, views of bankers were reported (either as a result of interviews or reflecting the knowledge of the supervisors). Overall, the pursuit of increased profitability prevails as a motive. Cost benefits from economies of scale are expected in domestic bank M&As, according to bankers. (International) conglomerates are created following anticipated revenue benefits from economies of scope. The cost benefits are known because they can be assessed on the basis of knowledge of cost structures in the present business area combined with insight into historical annual nominal costs (i.e. through internal cost accounting or in-house management systems),

⁹ X-efficiency is reached when, regardless of the scale of operation, input use is in line with the best practice of the industry, i.e. there is no waste of inputs given the level of outputs.

Main motives and possible rationalisations for the four types of M&As

	Within one country	In different countries
Between credit institutions	<p>Domestic bank M&As</p> <p>Economies of scale linked to costs are the main motive.</p> <p>Cutting distribution networks and administrative functions (rationalisation), including information technology and risk management areas.</p>	<p>International bank M&As</p> <p>Size, i.e. the need to be big enough in the market, is the main motive.</p> <p>Matching the size of clients and following clients.</p> <p>Possible rationalisation within administrative functions.</p>
Across different sectors	<p>Domestic conglomeration</p> <p>Economies of scope through cross-selling are the motive.</p> <p>Risk and revenue diversification.</p> <p>Optimum usage of complementary distribution networks.</p> <p>Possible rationalisations within administrative functions may lead to economies of scale linked to costs.</p>	<p>International conglomeration</p> <p>Economies of scope through cross-selling together with size are the two main motives.</p> <p>Risk and revenue diversification.</p> <p>The M&A offers few rationalisations because institutions are in different countries and subject to different regulations and practices.</p>

whereas the expected revenue benefits will be based on cross-selling possibilities and expectations of market developments. All in all, costs savings thereby seem more concrete than revenue benefits, which are much more elusive.

The table below sets out the main elements identified in the analysis of the rationale for the four categories of M&As; these are described in more detail below:

Domestic bank M&As

Economies of scale are the main rationale for “small” bank M&As. The small institutions aim to achieve critical mass to explore synergies arising from size and diversification. These M&As are clearly related to cost reductions that are realised by cutting branch networks, staff and overheads in central head-office functions such as information technology departments, macroeconomic departments and legal departments. M&As are also used to avoid takeovers.

“Large” bank M&As often reflect a repositioning of the institutions involved. The pursuit of size increases reflects the perceived need to become big enough for the domestic market. Economies of scale also play a role. Banks aim at increased market power and a larger capital base, and thus there is a larger focus on increasing revenue than for the small institutions. The same cost reductions are followed as in small M&As. Together with the possibility of selling off peripheral business areas, the M&A offers the advantage to owners of optimisation of the capital structure, and thus increased shareholder value. A decisive factor for success is achieving the possible rationalisations, which, in some Member States, may have been limited due to labour market rigidities.

International bank M&As

These M&As are mainly motivated by size – the need to be big enough for the regional or global market. It is, however, not only the size of the institution itself, but also the size of clients that plays a role, thereby further emphasising the repositioning argument and

the aim of achieving access and presence in a larger market. Banking groups follow and accompany the internationalisation and consolidation in the industries of their clients. Next to size, both economies of scale and scope have been cited as objectives.

Apart from size, another reason is economies of scale linked to cost reductions, although rationalisations are less obvious than for credit institutions in the same country (mainly the overlap of administrative and back-office organisations) owing to different regulatory requirements and/or market structures. The new institution will have a larger customer base in a larger market, increasing possibilities for economies of scale linked to increasing revenue and the possibility of reaching the critical mass needed to offer specific services, like, for instance, worldwide asset management. Acquisitions in emerging markets allow the transfer of knowledge and capabilities, leading to cost and revenue efficiency in the new entity.

In some Member States with high concentration, cross-border M&As may be driven by expectations among bankers that further national consolidation of large institutions would trigger opposition from anti-trust authorities. On the other hand, cross-border M&As may be hampered by political resistance in host countries. There is, however, understandably little, if any, empirical evidence for this behaviour.

Domestic conglomeration

Economies of scope are the predominant motive for domestic conglomeration. The critical issue is achieving the expected cross-selling of different financial products to the larger customer base brought together from the institutions involved. The expectation is to achieve “one-stop shopping” from “the cradle to the grave”. Hence, it is the revenue side that is at the core of the economic rationale, implying an efficient use of the existing distribution channels. By bringing together skills from different sectors, a two-fold achievement is expected – to respond to the disintermediation process within the conglomerate, thereby

capturing the business otherwise lost in the process, and to achieve income and risk diversification. Usually, existing distribution channels are maintained in their diversified form. Banks are moving strongly into long-term savings. This move responds to demographic changes and changes in fiscal treatment that encourages investment in personal pensions. Banks are also aiming at an additional use of “brick and mortar” distribution channels to make more efficient use of the fixed costs associated with their branches. The decline in interest margins resulting in a competitive pressure on banks has further fostered banks to seek new business areas. Insurance is a market in growth and as such has attracted banks. Finally, banks are entering the insurance business area because insurance products may be natural extensions of banking products. The combination of the two businesses may achieve risk and income diversification and thus lower the sensitivity to economic cycles.

International conglomeration

The two major reasons are economies of scope and size, in this instance in the form of being attractive to the large international clients. The economic rationale is almost solely related to increased revenue through cross-selling of strong brands. Overlaps of both administrative functions and distribution channels are minimal and institutions are in different countries with different rules and practices, limiting the possible cost advantages of this type of M&A. In a few instances, where rationalisations have been achieved, they have been related to administrative functions that have been centralised, i.e. information technology, strategic planning, risk management and marketing. Such a conglomerate challenges management capabilities to achieve the efficiency and the improvement anticipated.

2.3 The economic literature versus the views expressed in the industry

There are divergences between the findings in the economic literature and the views expressed in the industry. In the industry, there

are higher expectations of economies of scale than found by various studies. This may be explained by the banking industry being in profound evolution, whereby the industry reacts to changes in the market conditions and not to findings of econometric studies. One of the most important driving forces for changes in market conditions is the development of new technology, which – together with new possibilities for outsourcing – alters the cost structure of production. Furthermore, disintermediation, internationalisation and EMU have changed the market conditions for credit institutions. The discrepancy between economic literature and the industry might also result from the difficulty of achieving reliable estimates of scale economies, particularly in a forward-looking manner able to predict the causes for the present industry restructuring.¹⁰ M&As seem to be seen by many in the industry as a necessary step to adapt preventively to the likely effects of these driving forces for change. The most recent academic research indicates an increase in the threshold for economies of scale. As M&As take time to implement and changing market conditions also lead to a time lapse, the past data to be used for econometric studies show the effect with some years delay.

As for all M&A cases described¹¹ by the supervisors contributing to the report, it was apparent that M&As take time to implement. Usually a period of two to three years elapses before the success of a new institution can be judged. There are some hints that especially cost-related economies of scale take time to achieve, whereas revenue-related economies of scope appear more quickly because cross-selling does not require as much time to implement. Although revenue increases appear

¹⁰ First, econometric studies need long time series of historical data, but the cost structures of say a decade ago may no longer be very relevant owing to the technological evolutions. Second, accounting-based cost input in the studies may not reveal economic scale benefits, since, for example, small banks might achieve low costs in an accounting sense by outsourcing operations where there are scale economies (such as payment processing). Third, the overall economies of scale may not be the full explanation, since benefits from size in certain lines of banking business (such as asset management or wholesale banking) may be a sufficient reason to merge.

¹¹ Each delegation reported in some detail three to five examples of M&As.

quicker, it should be noted that they are more uncertain and elusive.

The likelihood of “cultural clashes”, which may cause a planned merger to fail, is higher for M&As of institutions operating in different business areas. They may, however, also appear in cases that do not lead to conglomeration. Differences in opinion between managers of banks with differing strategies may suffice to block an operation. When the operation is carried out nevertheless, cultural divergence has often delayed or hampered a smooth implementation of the operation.

The key importance of managerial behaviour for the success of M&As may also explain a good deal of the divergence between the views expressed and the conclusions one would draw from the economic literature. Managers have a positive expectation of their capability to master the human and managerial dimension, including

“cultural clashes”. The literature does not seem to confirm, however, the validity of these expectations. Furthermore, there might be an element of following the fashion of a global trend towards M&As, and bank managers may have been incited to take part in the M&A wave by investment bankers and other consultants.

The best “fit” between economic literature and reality seems to exist for the small bank mergers that lead to more cost-efficient enterprises and that, for the sector as a whole, will mop up excess capacity. Larger scale operations tend to be less frequent and already more complex so that it may become difficult to depict all relevant aspects of the operation with econometric tools and to find large enough samples. This argument holds even more true for operations leading to large complex financial conglomerates. Finally, if M&As are in fashion, managers may show herding behaviour. Following the fashion will be the safer behaviour than moving against the tide.

3 The way M&As are carried out – how do they happen?

This section examines the way in which M&As have been carried out – first from the credit institution perspective, second from the authority perspective.

3.1 M&As from the credit institution perspective

Data collected on domestic bank M&As show that these, in the majority of cases, take the form of a merger. There are, however, differences between Member States. As examples, mergers outnumber acquisitions in AT and DE, whereas the opposite is observed in FR and IT. For the other three types of M&As – being cross-border and/or cross-sector – the acquisitions constitute the majority of cases. The legal structures of institutions and conglomerates differ, not only between Member States but also between institutions and conglomerates within a country. So does the choice of legal structure in connection with M&As. The choice of

structure is sometimes motivated by tax reasons. Without being a common tendency across all Member States, the holding structure seems to be a more recent phenomenon, which has become popular in some Member States. Credit institutions might be the main company of a conglomerate, in practice owning the other activities. The co-ordinating and managerial function might, however, also be performed by a holding company.

Supervisory authorities have reported that in a number of cases an initial acquisition involving credit institutions is followed, at a later stage, by a merger. This appears especially to be the case when the geographic and business areas overlap. Another way of achieving an integration of organisations with a similar effect to that of a merger is a substantial re-organisation of the central functions, which has been reported in one case. If either the geographic distribution differs, the banks are located in different regions of the same

country or different countries (international bank M&As), or the business areas are clearly different – for example, a retail/corporate bank in an M&A with an investment bank – a merger is much less likely to follow the initial acquisition. The aim is often to maintain a recognised brand name, which can be achieved by a merger at the holding company level. When a domestic bank M&A takes place, two subsidiaries belonging to the same sector of the financial industry and located in the same foreign country will be merged. In relation specifically to international bank M&As, a successful acquisition in another country, whether within the EEA or in a third country, has been followed by another acquisition some years later. In some cases mergers have features of “acquisitions in disguise”: by the choice of a merger managers and shareholders of the “acquired” enterprises may be “pleased”.

As for both domestic and international bank M&As, the cases analysed provide no evidence of differences in how they are carried out depending on the size of the institutions involved. The geographic and business area differences or similarities are the decisive factors.

Specifically for bancassurance, four different sequences of increasing integration can be distinguished. First, banks may provide insurance products simply through co-operation agreements with existing insurance companies. The bank will typically distribute insurance products labelled with the name of the insurance company. Second, banks and insurance companies may decide to establish joint ventures to provide insurance products through the distribution network of the bank and, most commonly, under a name associated with the bank. Third, banks may decide to establish subsidiaries to develop the insurance business area and the products to

be distributed through the banks’ network(s). Fourth, banks and insurance companies can merge on a holding level or a bank can acquire an insurance company to become a subsidiary of the bank. The two latter sequences would constitute conglomerates.

The creation of conglomerates, whether domestic or international, has been either through holding company structures or through acquisitions. Restrictions on, for instance, the conduct of banking and insurance business from one legal entity eliminates the possibility for an acquisition to become a merger, or a merger to take place initially. International conglomeration has followed generally as a second step to an international bank M&A, whereby the range of products on the foreign market has been extended to take advantage of cross-selling possibilities.

Cross-border banking groups and conglomerates, of which three cases are mentioned in the box below, have from the outset chosen a complex group structure in a holding company form. They achieved an “economic merger” on “an equal footing” with equal ownership and fully shared management responsibilities. All three conglomerates (the Fortis group, the Dexia group and the MeritaNordbanken group – now known as Nordea) have recently adopted, or are about to adopt, a more simplified structure to streamline managerial procedures and eliminate the effect of market inefficiencies picking up on different holding companies and leading to shares in the same group trading at different prices. The simplification has also made the supervisory lines of responsibility more clear. Memoranda of understanding have, since the establishment of the three institutions, secured supervisory access and monitoring of the groups, including the distribution of consolidated supervision.

Box 2

Three cases of cross-border M&As, their organisation and supervision

In 1990 the Belgian AG and the Dutch Amev, both insurance companies, decided to have an economic merger of their activities under the name “Fortis”. A bi-national consortium structure was chosen, because no adequate legal form was available for two companies of a different nationality to integrate their activities on an equal footing. The group acquired a number of banks, and the Belgian and Dutch supervisors set up the necessary arrangements for the supervision of the group as a whole as well as for the banking activities. This was done in two memoranda, the “four parties covenant” (signed by the banking and insurance supervisors) and the “two parties covenant” (signed by the banking supervisors). In the “four parties covenant”, the Belgian banking supervisor was designated as the co-ordinating supervisor, responsible for receiving the reporting of the group, performing a first assessment, and organising the consultation process between the four supervisors. In the “two parties covenant”, the Belgian banking supervisor was designated as the central supervisor, charged with the consolidated supervision of the banking activities of the group. In 1999, owing to new acquisitions, the ownership structure of Fortis changed and the group structure was simplified. In the light of these changes, the supervisory arrangements have been reviewed.

In 1996, the Belgian Crédit Communal de Belgique and the French Crédit Local de France created the banking group “Dexia” modelled on the Fortis structure. In order to ensure an adequate consolidated supervision of the group, a memorandum providing for a two-tier supervision was concluded between the Belgian and the French banking supervisors. First, the two banks continued to be supervised by their respective supervisors. Secondly, prudential supervision of the group as a whole is carried out on the basis of a supervision equivalent to a credit institution heading a group. No central supervisor was designated for this consolidated supervision, but each supervisor in turn acted for a period of two years as a technical co-ordinator. In 1999, the joint structure of the Dexia group was unwound, and replaced by a single holding company incorporated in Belgium and heading all activities. The supervisory implications were that the Belgian banking supervisor became responsible for the consolidated supervision of the group. Because of the importance of the different components of the group, this consolidated supervision will be performed in close co-operation with the other European banking supervisors involved.

The Finnish-Swedish MeritaNordbanken was formed in 1998 through “an economic merger” – or an ownership arrangement like that seen for the Fortis and the Dexia groups. The issuance of common shares and preference shares made it possible to distribute voting rights equally and a co-operation agreement achieved a full sharing of management responsibilities. The financial holding company – MeritaNordbanken – was registered in Finland. The Finnish Financial Supervisory Authority was responsible for consolidated supervision. An MoU between the Finnish and Swedish supervisory authorities had an appendix relating to MeritaNordbanken, requesting, among other things, planning and from time to time conduct of inspections in co-operation, and the exchange of supervisory information at regular meetings. In October 1999 a proposal to simplify the ownership structure was put forward, according to which a new holding company, Nordic Baltic Holding, registered in Sweden, became the sole owner of MeritaNordbanken, which remained registered in Finland. In the first half of 2000, Nordic Baltic Holding acquired the holding company of Danish Unibank (Unidanmark), which also included substantial insurance activities in Denmark and Norway. The banking and insurance supervisors in all four Scandinavian countries now have a special MoU on the supervision of the holding company (now named Nordea) and the banking and insurance activities.

All three cases described above still involve a holding company registered in one country. The legal structure for a supra-national European company does not exist.

The internal organisations of institutions/conglomerates are also very different, as is the choice of internal organisation in connection with M&As. In some cases a company (or legal) structure is preferred, and in other cases a business line structure, whereby, for instance,

business development or risk management is the basis for the structure to achieve a managerial overview. Supervisory authorities have no general objections to either structure, but there must be a sufficient match between the legal structure and the internal organisation to ensure that there are no impediments to the adequate exercise of supervision and to monitor the decision-making processes with regard to legal correctness. Finding the appropriate legal and organisational structure seems to be a major challenge in merging and acquiring institutions. In cases where a matrix management or management by product line is followed, the legal structure does not correspond fully to the managerial structure

and the governing bodies of financial services groups may have difficulties in ensuring the smooth functioning of the group as a whole and, in particular, compliance with rules.

3.2 M&As from an authority perspective

National authorities are involved in M&As in various ways. Mergers and acquisitions are different and require differing approaches and involvement by authorities in the authorisation as well as the supervisory assessment. Moreover, the supervisory role as a home or a host supervisor has an effect.

Box 3

The European legal framework relevant to M&As involving credit institutions is laid down in Article 11 of the Second Banking Directive.¹² According to the relevant provisions, acquirers of a qualifying holding in a credit institution must inform the competent authority. The Directive sets out certain thresholds, the crossing of which triggers the notification obligation. Once notified, the competent authorities have a period of three months to oppose the plan. A veto can be issued if, in view of the need to ensure sound and prudent management, the competent authority is not satisfied with the suitability of the acquirer. The implementation of this provision differs slightly across Member States. There are some differences concerning the calculation of the thresholds and, in some cases, the right to veto is implemented as an obligation to obtain an authorisation.

Furthermore, Article 2 (2) of the so-called post-BCCI Directive¹³ is a key provision in relation to the authorisation of M&As. Banking supervisors can, according to the article, influence the structure of the new group resulting from an M&A. The provision obliges banking supervisors to refuse granting the licence if the structure of the group is an obstacle to their supervision on an individual or a consolidated basis.

3.2.1 Mergers and acquisitions – what is assessed?

Generally, a quasi authorisation (absence of a veto) is required in relation to mergers and to acquisitions.¹⁴ In some countries, an authorisation is required before publication of the intended merger or acquisition. Usually, there will be contacts between the authorities and the institutions involved at an early stage. However, public notifications of planned M&As usually include the information that the operation is subject to authorisation.

assessment aims to ensure continued compliance with supervisory rules (e.g. requirements for the suitability of shareholders, liquidity, capital, large exposures) and sufficient access to supervise the new entity at both company and consolidated level. In acquisitions, the most important issue for the authority of the acquired institution is the fit and proper characteristics of the new shareholder. The authority supervising an acquiring bank, will concentrate on an adequate supervision on a consolidated basis of the new structure and an appropriate

Assessment procedures and rules on mergers typically focus on the new entity, which is assessed in prudential terms. The prudential

¹² Directive 89/646/EEC.

¹³ Directive 95/26/EEC.

¹⁴ The setting-up of new entities from scratch is subject to normal authorisation for new entities under supervision.

organisation/follow-up by the acquiring bank. The impact of the operation on the supervisory requirements is also assessed, where relevant.

When supervisory authorities are approached to authorise M&As, they typically analyse a number of issues for the new entity ranging from its strategy to budgets for coming years and accounting treatment in connection with the M&A. In this context, the treatment of goodwill and the expected funding of acquisitions are important financial and accounting issues to be analysed.¹⁵ More specifically, supervisors may also request information like documents required by company law and possibly a legal opinion on compliance with the company law, copy of the formal decision by the Board of Directors and an assessment by external auditors that the new entity meets all regulatory requirements. In connection with the involvement of other authorities, a study of concentration and market structure may be carried out or requested. Areas that may also be analysed involve shareholders and corporate governance issues; for instance, the position of minority shareholders and shareholder agreements. Looking more into the future of the new entity, there might be an analysis of the strategy and plan for the implementation of the M&A, the planned internal organisation, where internal control procedures is one aspect, and, finally, financial information and projections as well as implications on e.g. accounting and tax, stemming from the M&A.

For both mergers and acquisitions, a refusal of the new entity might also be based on anti-trust rules determining whether or not a proposed merger distorts competition.

3.2.2 Exchange of information – who is the assessor?

The assessment of M&As can involve a number of authorities. This relates, in particular, to the number of institutions involved, but may also depend on the national procedure. The examples in this section concern only domestic bank M&As and domestic conglomeration. The cross-border aspects are discussed in Section 3.2.3 below.

In domestic bank M&As, involving only domestic credit institutions, the banking supervisory authority will be involved in the actual authorisation process. If either one of the institutions is listed on a stock exchange, the council or authority monitoring the stock exchange will be involved in monitoring compliance with rules on, for example, achieving management control, insider trading and rights of minority shareholders. In some cases, the Ministry of Finance and the central bank will also be involved.

In domestic conglomeration, involving credit institutions and domestic insurance companies and/or domestic other financial institutions, the banking supervisory authority will co-operate with the insurance supervisor and/or the supervisors competent for other financial institutions. The form of the co-operation depends on the national institutional settings. The co-operation may be within one and the same authority or between different authorities. For example:

- In NL both the central bank, being the supervisor for credit institutions, and the Insurance Board, the supervisor for insurance companies, have to give a so-called “declaration of no objection” when a bank and an insurance company want to establish a conglomerate. However, in NL, as in other EU countries, a complete merger between an insurance company and a credit institution is forbidden. Therefore, an encountered organisational structure is a top holding that includes both a credit institution and an insurance

¹⁵ Goodwill can be created both in the case of a merger, at the level of the accounts of the merged entity, (merger goodwill), and in the case of an acquisition, at the level of the consolidated accounts of the acquiring entity (consolidation goodwill). EU accounting directives allow two options as regards the treatment of goodwill: activation and amortisation, or deduction from own funds (equivalent to amortisation in one year). Some EU Member States chose the first option, whereas others adopted the second. They have different impacts on profitability and, in particular, on the return on equity ratio. Whichever accounting treatment is chosen, the prudential regulation requires deducting the goodwill from own funds. Some accounting techniques, such as the pooling of interest, allow mergers and acquisitions to be treated without creating goodwill. The pooling of interest technique has been used in the US and some EU Member States. In the US, the technique has been presented as having encouraged the recent wave of mergers and acquisitions. The technique is currently under review and could be prohibited in the future.

company. Both supervisors have made an agreement to gear supervision policies to each other, the so-called "Protocol". Up to now the top holding has not been supervised directly, unless this top holding is a credit institution or insurance company itself. In 1999 De Nederlandsche Bank, the Insurance Board and the Securities Board established a Council of Financial Supervisors in accordance with a proposal by the Minister of Finance. With the advent of this Council, the already existing co-operation between the three financial supervisors was intensified. The Council's activities focuses on cross-sectoral policy issues, one of which is the supervision of financial conglomerates.

- In FR the Financial Security Act of June 1999 established a board of financial supervisory authorities charged with facilitating exchanges of information and examining any question of common interest relating to the supervision of financial groups. The board comprises the Governor of the Banque de France, the chairman of the Insurance Board, the chairman of the Securities Exchange Commission, and the chairman of the Market Council.
- In BE a general agreement on co-operation has been concluded between the Banking and Finance Commission and the Insurance Supervisor in Belgium. The agreement includes a compulsory consultation and exchange of information regarding all questions relevant for the prudential supervision (solvency, profitability, liquidity, shareholders, major shareholdings, management structure, capacity managers, administrative and accounting procedures, internal control systems, measures to be taken with regard to institutions which do not comply with the rules, supervision on a consolidated basis).
- In PT, a Council of Financial Supervisors was created in September 2000. The Council is chaired by the Governor of the Banco de Portugal. In addition to the chairman, permanent members will be the member of the Board of the Banco de

Portugal responsible for prudential supervision of credit institutions and financial companies, the president of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) and the president of the Comissão do Mercado de Valores Mobiliários (Securities Markets Commission). The National Council of Financial Supervisors is responsible, inter alia, for: (i) promoting the co-ordination of the actions to be undertaken by the supervisory authorities of the Portuguese financial system; (ii) enhancing and co-ordinating the exchange of information between those supervisory authorities; (iii) promoting the development of supervisory rules and instruments for financial conglomerates; (iv) formulating proposals on issues related to the competencies of more than one supervisory authority; and (v) promoting memoranda of understanding with foreign regulators whenever necessary for the adequate accomplishment of common supervisory activities.

- In DE a Forum for Financial Market Supervision was established in November 2000, comprising the three supervisory authorities, the Deutsche Bundesbank in its capacity of supervisor and, if deemed necessary, the Ministry of Finance. The inaugural meeting will take place in December. The main purpose of the Forum is to enhance cross-sector flows of information and co-operation as well as to further develop supervisory concepts. In addition, it is also in charge of monitoring and assessing financial market developments of mutual interest.

The rules and practices governing the exchange of information for supervisory purposes have been the object of international standard-setting and European Community law.

16 The wording "home" supervisor in this context refers to the supervisor of the country in which the acquiring enterprise or ultimate holding company is registered. The wording "host" supervisor refers to the supervisor of the country in which the acquired enterprise is registered. This should not be confused with the host and home supervisor concept in relation to a foreign branch and head office.

3.2.3 Roles of the “home” and the “host” supervisor¹⁶

The three cases of Fortis, Dexia and Nordea described previously, were mergers of enterprises at the holding company level. In the vast majority of cases, however, cross-border operations are acquisitions. In accordance with the acquisition rules, it is mainly the authority responsible for the acquired institution, which assesses the operation.

From the perspective of the home supervisor, in some Member States an acquisition outside the EU requires an authorisation. Within the EU the home supervisor can reject an acquisition for prudential reasons, e.g. if the acquisition has a negative impact on the financial position or the organisation of the acquiring institution. The home supervisor will assess the new business entity in accordance with the normal supervisory routines; it will be responsible for consolidated supervision, and

will in that connection liaise with the host supervisor.

The assessment of an acquisition on a cross-border basis rests with the host supervisor (and possibly other authorities). The acquiring institution needs, therefore, to observe the assessment rules for acquisition with the host authorities. These mainly relate to the achievement of certain thresholds of voting rights – a qualifying holding, as mentioned above. If the acquired institution becomes a subsidiary of the new owner, the host supervisor will retain the supervision of the entity on a stand-alone basis. Information about the whole group can only be obtained through co-operation with the supervisory authority responsible for consolidated supervision. If, on the other hand, the acquired entity is turned into a branch, the role of the host supervisor will change. In the EEA, the role of the “host supervisor of a branch” is basically confined to liquidity monitoring.

4 Implications of M&As for the institutions involved

M&As have implications for the institutions involved. Some of the important implications for the institutions have already been dealt with. In Section 2 on motives, the opportunities for rationalisation were described and found to be greater for domestic bank M&As. In Section 3, which considers the way in which M&As are carried out, the implications for legal and business line structures were described. The cases of the Fortis, Dexia and Nordea groups showed that initial complex structures were later simplified. In addition, there may be other implications for market structures and competition which are outside the scope of this analysis. In relation to the institutions, this section deals with the overall advantages for the sector and the risks that specifically concern M&As. Whereas these risks may have an effect in the medium to long term for the institutions, the major specific M&A risks are in the period immediately preceding (ex ante risks) and after the M&A (ex post risks).

4.1 Advantages for the institutions and the sector as a whole

There is a positive view of dynamic reactions of the banking industry to changes in regulation and market forces when these are based on well-founded strategies leading to successful M&As.

A reduction in (excess) capacity is a clear advantage in relation to the domestic bank M&A. In addition, domestic bank M&As can constitute a market-based rescue operation for institutions in financial distress. Such rescue operations may reflect existing relations between the two institutions, i.e. two savings banks in neighbouring cities, or may be initiated by supervisory authorities. Given that the trust in the financial sector is maintained and competition is not distorted, market-based rescue operations have clear advantages compared with those that involve authorities (taxpayers' money) or deposit insurance schemes.

A reduction in capacity may also be achieved in international bank M&As, but the major advantage in this type of operation is the income and risk diversification attained by the institution, which – ceteris paribus – will make the institution less vulnerable to shocks in financial markets and financial distress in a local market.

The major advantage of domestic conglomeration relates to income and risk diversification attained from a broader product range. This is true specifically for bancassurance with an ownership element. The EU regulatory framework allows banks to react dynamically to changes in market developments by entering into new business areas offering growth potential, to add to income and risk diversification. This flexibility – when used with the necessary caution and diligent management – can contribute to stability by risk diversification. This will benefit the different financial sectors

included in the conglomerates. Finally, international conglomeration offers advantages in the form of income and risk diversification, not only from a broader product range but also from geographic distribution.

4.2 Risks of M&As – the transition period

M&As present, as shown above, quite significant managerial challenges. These challenges usually increase with the complexity of the resulting organisation. The table below flags the most obvious risks in all categories of M&As studied, with more detailed information provided after the table. From the most straightforward cases, the domestic bank M&As, dimensions of complexity increase and often, in turn, increase the risk; ceteris paribus, a cross-sector or cross-border operation is usually far more risky and challenging than one within the same country and sector.

Risks associated with the four types of M&As

	Within one country	International bank M&As
Between credit institutions	<p>Domestic bank M&As</p> <p>Ex ante: pricing of the operation and strategic risks.</p> <p>Ex post: operational risks, i.e. integrating risk management, customer and account systems, and internal control procedures.</p> <p>In addition, too high inward orientation with loss of clients – resource allocation risk.</p>	<p>International bank M&As</p> <p>Ex ante: as for domestic bank M&As, but increases because of cultural differences.</p> <p>Foreign exchange risks.</p> <p>Ex. post: as for domestic bank M&As, but increased by different fiscal and accounting treatment and different reporting requirements.</p>
Across different sectors	<p>Domestic conglomeration</p> <p>Ex. ante: as above but increases because of different business areas. Possible personnel friction because of different staff rules and remuneration schemes.</p> <p>Ex post: as above but increased by different fiscal and accounting treatment and different reporting requirements.</p> <p>Reputation risks in the medium and long term.</p>	<p>International conglomeration</p> <p>Ex ante: maximum risk. All risks relating to domestic conglomeration and international bank M&As.</p> <p>Ex post: maximum risk. All risks relating to domestic conglomeration and international bank M&As.</p> <p>Reputation risks in the medium and long term.</p>

For domestic bank M&As the risks ex ante are mainly associated with the fixing of an appropriate price for the deal. The value should correspond to expected future income. In an

M&A involving two institutions operating in the same country with basically the same product line, the strategic issues should be well known to management and the risks therefore manageable.

For the period after the M&A operation, the major risk is linked to operational issues, i.e. the integration of personnel, information and risk management systems and procedures, the internal control procedures and integration of day-to-day customer and accounting systems. Often, operational problems will differ in mergers and acquisitions; in mergers a full integration of information technology and accounting systems into one platform is needed, whereas functions can be kept separate in acquisitions. Management should allocate adequate resources to the operational issues, secure transparency, as well as follow up and react to inactivity or malfunctions. In addition to the operational issues, there are likely to be turf battles in the new entity between managers below top-level management, which might eventually lead to a loss of key personnel. A significant focus on operational issues and turf battles for too long may lead to a loss of clients and markets, owing to the initial inward orientation.

For international bank M&As the risks ex ante are very much the same as for domestic bank M&As, but may generally be regarded as higher due to cultural barriers/differences. In the context of strategic risk, management in one country cannot have the same knowledge about the market, regulation and practices in another country. Greater difficulties in fixing the value of the counterpart, in particular, can be expected. Ex post, the operational risk of international bank M&As is often higher than that of domestic bank M&As. Institutions in two different countries will be subject to different fiscal and accounting treatment and reporting requirements. In addition, the negative impact of a loss of key personnel could be a larger blow because of cultural differences.

The entering of a new business area through domestic conglomeration gives rise to the challenge of responding to different corporate cultures. Ex ante the risks will, as for domestic bank M&As, be related to price and strategic risks, but within an “unknown” industry. Apart from explicit corporate differences, and staff associating themselves with a specific type of

culture, there are likely to be differences in staff rules and remuneration, which can lead to friction between the two groups of personnel. Ex post, the domestic conglomeration risks will be the challenges of facing different business lines and cultures. Equally great challenges may be encountered in relation to fiscal and accounting treatment and reporting requirements. A specific element of risk in conglomeration M&As may require particular attention: reputation risk. This is the risk that a failure in one enterprise may lead to a deterioration in the reputation of the whole conglomerate. One part of the conglomerate may have to suffer, with clients terminating their relationships, because of mistakes or disagreements with the same clients in another part of the conglomerate.

With regard to international conglomeration, things become more complicated ex ante. Both the business area and the country are different and might not be so well known to the acquirer or merging partners. This brings the strategic and price risks to a maximum. Furthermore, the integration process ex post – and thereby the operational risks – increases because of the two dimensions of the M&A. Maintaining key personnel and management is very important. Again, reputation risks are relevant.

As mentioned above, merging institutions will face different risks during different phases of the operation. The underlying competitive changes are also relevant for institutions not involved in M&As. Banks may respond in different ways to competitive changes and the important issue is whether banks find an adequate response to the pressure for change; the choice among different workable responses is of secondary importance.

Personal interests of managers are considered very important in all types of M&A and not always a negative factor. M&As or other structural changes in the European financial sector would probably be limited, if managers were not personally interested in the well-being, size and importance of “their” institution. Personal interests are likely to increase the motivation of high-level managers

directly involved in M&As which – *ceteris paribus* – will increase the likelihood of successful co-operation and conclusion of an M&A. At staff levels, the motivation of managers can have a positive effect. The focus of these employees is, however, more likely to be on job security than on the size and importance of the “new” employer.

Personal interests may also block M&As, i.e. when managers seek to isolate “their” institution from M&As in order to protect their own position. This may not necessarily be bad. Turf battles, which also result from managers’ personal interests, however, lead to an inefficient use of resources. They very often occur in institutions involved in M&As and in areas where responsibilities have not yet been allocated between the managers of the previous institutions.

There are instances where the personal interests of managers may overrule those of owners. This implies imperfect corporate governance, which would otherwise ensure that the interest of the owners is secured. In cases of small M&As, managers may pursue their own interest to retain their position in an independent enterprise at any cost. In cases of large M&As managers may be tempted to pursue increases in size, purely for the sake of size, without paying due attention to the strategic and managerial consequences. The pursuit of size becomes particularly risky when the targeted enterprise is in trouble and the managers and shareholders of the targeted enterprise seize the opportunity to cash in. Adding to the pressure on managers for high performance is the pressure from shareholders, which have often been presented with M&As full of promises.

5 Implications for supervisors

There are a number of implications for supervisors and regulators. For supervisors, the challenge lies in coping with the heightened risk presented by institutions involved in M&As. In the event that the operation results in a cross-border conglomerate, issues of supervisory co-operation and the avoidance of undesirable supervisory arbitrage arise. Regulators are mainly called upon to respond to the development of financial conglomerates.

Domestic bank M&As account for the major part of M&As measured by number. They are between both “small” and “large” institutions and affect many institutions, i.e. with transition risks. Supervisory authorities have well-developed tools to analyse and follow up on these M&As. A high occurrence of M&As may, however, absorb managerial and other resources and hence limit the dynamism of banks in a certain period. This could cause problems in the event of general financial distress.

Institutions involved in cross-border M&As will experience differences in accounting rules and in

taxation. There are also differences in prudential rules and practices, including the licensing procedures and documents requested in that connection. Financial institutions seek to take advantage of differences in rules and practices. Any differences are in themselves, however, not considered strong motives for M&As. The minimum harmonisation of banking legislation in the EU is an important achievement; hence supervisory arbitrage relates, in particular, to situations involving different sectors of the financial industry and with jurisdictions outside the EU. For example, the development of hybrid financial products combining insurance and saving/investment elements raises issues concerning the maintenance of a level playing-field between different types of financial institutions operating in different sectors of the financial industry. Apart from co-operation among national authorities, whether bilateral or multilateral, there is a need for continuous monitoring of rules, regulations and practices to ensure that an adequate framework is in place for a level playing-field and to eliminate the risk of supervisory arbitrage.

Memoranda of understanding have been developed over the years to cover the need for the exchange of information in connection with international bank M&As, domestic conglomeration and international conglomeration. As most such institutions/conglomerates maintain operations abroad in the form of subsidiaries, there will be supervision by the “host” authority of the subsidiary, and the exchange of information and allocation of responsibility in the conduct of supervision on a consolidated basis are governed by general rules.

Consolidation may increase systemic risk, since the increase in firm sizes raises the proportion of firms whose failure may carry potential systemic risks. Systemic risk may also increase owing to an increase in the scope of large firms’ activities following consolidation. Larger banks engaged in a wide variety of activities may become more complex to manage and monitor. In addition, they may become less transparent to markets and regulators. These systemic risk-related problems may be offset by improvements in the internal risk management and control technologies, as well as in risk-monitoring technologies by markets and regulators. In addition, consolidation may enable large banks to diversify risk, owing to a larger range of activities. The vulnerability of the financial sector to systemic risk also depends on the correlation of risks among financial institutions. The process of conglomeration might also give rise to similar considerations and expectations.

The occurrence of more “large” M&As is likely to change the size and scope of institutions subject to prudential supervision.

Finally, supervisory authorities continue to monitor capital adequacy, which is typically affected by M&As – unless fresh capital is injected. Keeping the group well capitalised may be at odds with the increased focus on shareholder value and seeking for high returns on equity. An increased capital leverage of a new entity resulting from an M&A – particularly through the use of existing resources or through funding in the market to maintain capital adequacy ratios – lowers the capital cushion for withstanding financial difficulties. In relation to capital adequacy, the prevention of double gearing – where capital is used twice to support both the parent company and its subsidiaries – also needs continued attention by supervisors. The same is true for the specific issue of the accounting treatment of goodwill mentioned earlier.

This report has shown that the creation and operation of financial conglomerates has occurred in many Member States. The process of conglomeration is expected to continue. In response to this development, work is currently under way under the auspices of the European Commission and in the wider international context to enhance further the supervision of financial conglomerates and to address in a systematic way the supervisory co-operation issue. A screening of the existing memoranda of understanding is being carried out in this context.

Annex I: Definitions and tables

The following tables have been produced on the basis of contributions from national EU central banks and banking supervisors. **The data have not been collected on the basis of an agreed statistical framework, but as an ad hoc exercise to serve as information for this report.** Therefore, definitions are not harmonised and data should be taken as indicative only and interpreted with due caution. This also applies to EU aggregates and averages. Below is a list of definitions used in connection with the collection of information.

Credit institution: The term is used within the meaning of the national interpretation of “credit institution”, as defined in the EU banking directives.

Unconsolidated domestic data: Data for institutions incorporated and operating in the reporting country. The data include subsidiaries and branches of institutions from EU and third countries in the reporting country and exclude data from subsidiaries and branches of institutions of the reporting country in other countries.

The five largest institutions: These institutions, i.e. the five largest institutions at the end of each reporting year, are variable over time. They are based on a “group approach” whereby two or more institutions belonging to the same group are accounted for as one institution.

“Large” versus “small” M&As: “Large” M&As are defined as M&As involving enterprises with assets of EUR 1 billion and above (note that this includes M&As involving both (very) large as well as medium-sized and relatively small institutions). “Small” M&As involve enterprises with assets of up to EUR 1 billion. Only one enterprise involved in an M&A is needed to qualify as “large” for the M&A to be counted as a “large” M&A.

Merger: Two or more companies joining together. The new entity can be at holding level or at company level. A merger is recorded on the date of the economic decision (formally agreed) even if the legal issues have not been

fully finalised. If subsequent disputes, legal issues or a lack of supervisory approval were to interfere with a completion of the merger, it is held not to have been recorded.

Acquisitions: A company buying shares in another company to achieve a managerial influence. An acquisition may be of a minority or of a majority of the shares in the acquired company. An acquisition is recorded on the date of the economic decision (formally agreed) even if the legal issues have not been fully finalised. If subsequent disputes, legal issues or a lack of supervisory approval were to interfere with a completion of the acquisition, it is held not to have been recorded.

Consolidation: *A merger or an acquisition – whether within a sector of the financial industry or across sectors – that reduces the number of operational institutions/groups.*

Financial conglomerate: A group of financial companies operating in different sectors of the financial industry. The largest and/or “leading” company in a conglomerate may be a credit institution, an insurance company, a holding company or another financial institution.

Sectors of the financial industry: Credit institutions, insurance companies, asset management companies, investment companies, undertakings for collective investment in transferable securities (UCITS) and other financial companies.

Categories of banks: Commercial banks, savings banks and co-operative banks.

Co-operation agreement: When two or more institutions have an agreement to co-operate in their business by way of cross-selling of products from the other institution(s).

Forum shopping: The deliberate/strategic use of regulatory differences (regulatory arbitrage) to achieve an advantage.

All averages are simple averages based on the number of Member States for which data are available in the year.

List of tables:

1.1	Total number of M&As of credit institutions (domestic and foreign)	1.6	Number of “small” domestic M&As of credit institutions
1.2	Number of domestic M&As of credit institutions	2.1	CR5 – assets of five largest credit institutions as a percentage of total assets
1.2.1	Value of domestic mergers of credit institutions	2.2	HI on total assets
1.2.2	Value of domestic full acquisitions of credit institutions	2.3	CR5 – loans of five largest credit institutions as a percentage of total non-bank loans
1.2.3	Value of domestic majority acquisitions of credit institutions	2.4	HI on total loans to non-banks
1.3	Number of EEA M&As of credit institutions	2.5	CR5 – deposits of five largest credit institutions as a percentage of total non-bank deposits
1.3.1	Value of EEA M&As of credit institutions	2.6	HI on total deposits from non-banks
1.4	Number of third country M&As of credit institutions	3.1	Capacity – number of credit institutions
1.4.1	Value of third country M&As of credit institutions	3.2	Capacity – number of branches per 1,000 capita
1.5	Number of “large” domestic M&As of credit institutions	3.3	Capacity – number of employees per 1,000 capita

Table 1.1**Total number of M&As of credit institutions***(domestic and foreign)*

							1st half	Average
	1995	1996	1997	1998	1999	2000	1995-99	
AT	14	24	29	37	24	8	26	
BE	6	9	9	7	11	3	8	
DE	122	134	118	202	269	101	169	
DK	2	2	2	1	2	2	2	
ES	13	11	19	15	17	29	15	
FI	9	6	5	7	2	5	6	
FR	61	61	47	53	55	25	55	
GR	0	1	3	9	8	1	4	
IE	3	4	3	3	2	0	3	
IT	73	59	45	55	66	30	60	
LU	3	2	3	12	10	8	6	
NL	7	11	8	3	3	5	6	
PT	6	6	2	5	2	9	4	
SE	1	2	5	1	7	2	3	
UK	6	11	21	24	19	6	16	
Total:	326	343	319	434	497	234		

Table 1.2**Number of domestic M&As of credit institutions**

							1st half	Average
	1995	1996	1997	1998	1999	2000	1995-99	
AT	14	24	27	37	20	5	24	
BE	6	8	7	6	6	0	7	
DE	100	117	109	189	240	91	151	
DK	2	2	1	1	0	1	1	
ES	4	4	1	5	5	3	4	
FI	7	6	5	5	2	3	5	
FR	60	61	46	52	51	21	54	
GR	0	0	3	7	3	0	3	
IE	1	1	0	2	1	0	1	
IT	68	56	45	52	64	30	57	
LU	3	1	3	9	6	6	4	
NL	2	2	5	0	1	2	2	
PT	5	5	1	1	0	6	2	
SE	1	2	2	1	1	0	1	
UK	2	4	15	16	14	4	10	
Total:	275	293	270	383	414	172		

Table 1.2.1**Value of domestic mergers of credit institutions**

	1st half					
	1995	1996	1997	1998	1999	2000
AT	5.42	3.01	13.37	13.68	1.16	0.31
BE	8.49	14.71	12.48	20.09	0.12	0.00
DE	0.34	0.78	0.39	4.57	2.40	4.00
DK	0.40	7.70	0.10	15.50	0.00	0.10
ES	0.50	7.70	0.00	1.40	20.12	18.44
FI	45.59	3.36	0.21	29.43	0.00	3.18
FR	2.90	12.10	19.00	10.80	57.50	10.28
GR	0.00	0.00	9.94	32.78	9.01	0.00
IE	n.a.	n.a.	n.a.	1.40	0.00	0.00
IT	1.30	0.17	0.10	1.07	0.04	0.00
LU	1.54	0.00	2.59	12.22	7.40	4.45
NL	0.00	0.00	n.a.	0.00	0.00	0.17
PT	0.00	0.00	0.00	0.10	0.00	5.40
SE	0.00	0.07	18.00	0.00	0.00	0.00
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Value: Banking assets involved in mergers as a percentage of total domestic banking assets.

Table 1.2.2**Value of domestic full acquisitions of credit institutions**

	1st half					
	1995	1996	1997	1998	1999	2000
AT	0.00	0.00	34.84	2.38	0.00	0.06
BE	0.39	1.03	2.81	0.18	0.23	0.00
DE	0.77	0.46	0.09	0.01	0.02	1.50
DK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ES	0.00	0.01	0.00	0.11	0.24	0.00
FI	0.77	0.00	0.03	0.00	0.00	0.00
FR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GR	0.00	0.00	0.21	0.12	0.90	0.00
IE	0.13	0.20	n.a.	0.10	0.10	0.00
IT	0.34	0.30	0.71	1.33	0.35	0.06
LU	0.00	0.21	0.00	1.82	0.05	0.00
NL	n.a.	n.a.	n.a.	0.00	0.01	0.02
PT	13.30	1.90	0.00	0.00	0.00	5.29
SE	0.20	11.20	23.00	0.30	0.50	0.00
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Value: Banking assets of acquired institution as a percentage of total domestic banking assets.

Table I.2.3**Value of domestic majority acquisitions of credit institutions**

	1st half					
	1995	1996	1997	1998	1999	2000
AT	n.a.	0.00	0.00	0.16	0.15	0.00
BE	0.00	0.00	0.00	0.00	0.11	0.00
DE	0.07	0.01	0.07	0.00	0.00	0.00
DK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ES	4.64	0.28	0.00	0.11	0.00	0.00
FI	0.00	0.00	0.00	0.00	0.00	0.00
FR	19.40	38.00	16.70	12.00	43.89	0.17
GR	0.00	0.00	0.00	3.67	4.36	0.00
IE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IT	4.57	1.08	3.42	9.54	14.35	2.27
LU	0.00	0.00	0.00	0.00	0.00	0.00
NL	0.00	n.a.	n.a.	0.00	0.00	0.00
PT	11.50	5.90	0.30	0.00	0.00	0.01
SE	0.00	0.00	0.00	0.00	0.00	0.00
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Value: Banking assets of acquired institution as a percentage of total domestic banking assets.

For FR: Assets of institutions involved in majority acquisitions as a percentage of total domestic banking assets.

Table I.3**Number of EEA M&As of credit institutions**

	1st half						Average
	1995	1996	1997	1998	1999	2000	1995-99
AT	0	0	1	0	0	0	0
BE	0	1	0	0	3	2	1
DE	15	0	2	6	10	6	7
DK	0	0	1	0	2	0	1
ES	0	1	0	2	1	7	1
FI	2	0	0	1	0	1	1
FR	0	0	1	1	2	2	1
GR	0	0	0	0	0	0	0
IE	1	1	1	1	0	0	1
IT	0	0	0	0	0	0	0
LU	0	0	0	3	3	1	1
NL	1	1	3	1	1	0	1
PT	1	0	0	0	0	2	0
SE	0	0	3	0	3	2	1
UK	0	3	0	3	2	0	2
Total:	20	7	12	18	27	23	

Includes: Mergers with institutions in EEA countries plus acquisitions by domestic institutions in EEA countries.

For FR: Number of domestic institutions acquired by credit institutions from EEA countries.

Table 1.3.1**Value of EEA M&As of credit institutions**

	1st half					
	1995	1996	1997	1998	1999	2000
AT	0.00	0.00	n.a.	0.00	0.00	0.00
BE	0.00	8.43	0.09	1.56	1.47	n.a.
DE	29.00	0.00	12.00	24.00	14.00	n.a.
DK	0.00	0.00	0.00	0.00	3.48	23.83
ES	0.00	9.46	0.00	8.23	0.00	0.00
FI	0.96	0.00	0.00	51.60	0.00	46.93
FR	0.00	0.00	0.00	0.02	3.01	0.01
GR	0.00	0.00	0.00	0.00	0.00	0.00
IE	14.41	0.71	12.21	2.31	n.a.	0.00
IT	0.00	0.00	0.00	0.00	0.00	0.00
LU	0.00	0.00	0.00	0.00	0.00	0.00
NL	0.00	0.00	0.00	4.23	19.47	0.00
PT	0.00	0.00	0.00	0.00	0.00	8.01
SE	0.00	0.00	11.50	0.00	17.20	32.90
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Value: Total assets of domestic institutions as a percentage of total domestic assets, as follows:

– domestic institution acquired by a foreign institution for DK, FR, IT, LU and PT.

– domestic institution acquiring a foreign institution for AT, BE, DE, ES, FI, GR, IE, NL and SE.

Table 1.4**Number of third country M&As of credit institutions**

	1st half						Average
	1995	1996	1997	1998	1999	2000	1995-99
AT	0	0	1	0	4	3	1
BE	0	0	2	1	2	1	1
DE	7	17	7	7	19	4	11
DK	0	0	0	0	0	1	0
ES	9	6	18	8	11	19	10
FI	0	0	0	1	0	1	0
FR	1	0	0	0	2	2	1
GR	0	1	0	2	5	1	2
IE	1	2	2	0	1	0	1
IT	5	3	0	3	2	0	3
LU	0	1	0	0	1	1	0
NL	4	8	0	2	1	3	3
PT	0	1	1	4	2	1	2
SE	0	0	0	0	3	0	1
UK	4	4	6	5	3	2	4
Total:	31	43	37	33	56	39	

Includes: Mergers with institutions in third countries plus acquisitions by domestic institutions in third countries.

For FR: Number of domestic institutions acquired by credit institutions from third countries.

Table 1.4.1**Value of third country M&As of credit institutions**

	1st half					
	1995	1996	1997	1998	1999	2000
AT	0.00	0.00	n.a.	0.00	n.a.	n.a.
BE	0.00	0.00	0.00	0.00	0.98	n.a.
DE	13.00	35.00	27.00	23.00	20.00	n.a.
DK	0.00	0.00	0.00	0.00	0.00	0.00
ES	23.30	17.16	18.88	26.16	26.18	0.00
FI	0.00	0.00	0.00	0.00	0.00	0.13
FR	0.00	0.00	0.00	0.00	0.00	0.00
GR	0.00	9.26	0.00	10.68	40.75	n.a.
IE	16.63	14.58	12.18	n.a.	13.69	0.00
IT	0.00	0.00	0.00	0.00	0.00	0.00
LU	0.00	0.00	0.00	0.00	0.00	0.00
NL	n.a.	n.a.	0.00	28.52	24.01	44.13
PT	0.00	0.00	0.00	0.00	0.00	0.00
SE	0.00	0.00	0.00	0.00	37.30	0.00
UK	0.00	n.a.	n.a.	n.a.	n.a.	n.a.

Value: Total assets of domestic institutions as a percentage of total domestic assets, as follows:

– domestic institution acquired by a foreign institution for DK, FR, IT, LU and PT

– domestic institution acquiring a foreign institution for AT, BE, DE, ES, FI, GR, IE, NL and SE

Table 1.5**Number of “large” domestic M&As of credit institutions**

	1st half						Average
	1995	1996	1997	1998	1999	2000	1995-99
AT	2	3	7	7	1	0	4
BE	1	1	3	2	0	0	1
DE	8	5	6	9	6	7	7
DK	0	1	0	1	0	0	0
ES	3	2	0	0	3	3	2
FI	1	0	0	1	0	0	0
FR	12	4	9	10	24	13	12
GR	0	0	0	4	2	0	1
IE	0	0	0	1	0	0	0
IT	16	7	9	13	13	7	12
LU	1	1	0	2	1	3	1
NL	0	0	0	0	0	0	0
PT	5	3	0	0	0	5	2
SE	0	1	0	1	1	0	1
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0
Total:	49	28	34	51	51	38	

Table 1.6**Number of “small” domestic M&As of credit institutions**

	1st half						Average
	1995	1996	1997	1998	1999	2000	1995-99
AT	12	21	20	30	19	5	20
BE	5	7	4	4	6	0	5
DE	92	112	103	180	234	84	144
DK	2	1	1	0	0	1	1
ES	1	2	1	5	3	0	2
FI	6	6	5	4	2	3	5
FR	48	57	37	42	27	8	42
GR	0	0	3	3	1	0	1
IE	1	1	0	1	1	0	1
IT	52	49	36	39	51	23	45
LU	2	0	3	7	5	3	3
NL	2	2	5	0	1	2	2
PT	0	2	1	1	0	1	1
SE	1	1	2	0	0	0	1
UK	2	4	15	16	14	4	10
Total:	226	265	236	332	364	134	

Table 2.1**CR5 – assets of five largest credit institutions as a percentage of total assets**

	1980	1985	1990	1995	1996	1997	1998	1999	% -change	
									1990-99	1995-99
AT		35.88	34.67	39.19	38.96	48.25	50.07	50.39	45	29
BE	54.00	48.00	48.00	51.20	52.20	53.90	72.50	77.39	61	51
DE			13.91	16.67	16.08	16.68	19.15	18.95	36	14
DK	62.00	61.00	76.00	72.00	72.00	72.00	76.00	77.00	1	7
ES	n.a.	35.06	34.91	47.30	46.00	45.20	44.60	51.90	49	10
FI	37.00	38.00	41.00	70.62	71.74	72.72	73.51	74.33	81	5
FR		46.00	42.50	41.30	41.20	38.00	39.20	42.70	0	3
GR	n.a.	80.56	83.70	75.66	74.49	71.77	72.77	76.62	-8	1
IE	59.10	47.50	44.20	44.40	42.20	40.70	40.10	40.79	-8	-8
IT			29.19	32.36	32.11	30.71	38.73	48.33	66	49
LU	31.06	26.83		21.23	21.81	22.43	24.58	26.09	n.a.	23
NL		72.88	73.39	76.14	75.36	79.42	81.69	82.25	12	8
PT	60.00	61.00	58.00	74.00	80.00	76.00	75.22	72.60	25	-2
SE		80.81	82.68	86.53	86.52	86.80	85.65	88.21	7	2
UK				28.27	29.14	28.28	27.75	29.07	n.a.	3
Av.	37.90	52.79	50.93	51.79	51.99	52.19	54.77	57.11		

Table 2.2**HI on total assets**

	1980	1985	1990	1995	1996	1997	1998	1999	% -change	
									1990-99	1995-99
AT			0.0363	0.0437	0.0445	0.0831	0.0983	0.1016	180	132
BE				0.0637	0.0670	0.0700	0.1310	0.1552	n.a.	144
DE						0.0112	0.0134	0.0136	n.a.	n.a.
DK				0.1211	0.1186	0.1164	0.1337	0.1363	n.a.	13
ES		0.0373	0.0352	0.0528	0.0503	0.0496	0.0488	0.0716	103	36
FI				0.1786	0.1793	0.1814	0.2041	0.1910	n.a.	7
FR				0.0421	0.0437	0.0449	0.0485	0.0509	n.a.	21
GR		0.2469	0.2496	0.1778	0.1664	0.1534	0.1539	0.1513	-39	-15
IE				0.0650	0.0580	0.0500	0.0470	0.0480	n.a.	-26
IT		0.0161	0.0140		0.0313	0.0308	0.0409	0.0600	329	n.a.
LU						0.0202	0.0224	0.0237	n.a.	n.a.
NL		0.1340	0.1169	0.1603	0.1536	0.1654	0.1802	0.1700	45	6
PT		0.1118	0.0960	0.1397	0.1491	0.1299	0.1307	0.1234	29	-12
SE		0.1960	0.2250	0.1950	0.2000	0.2040	0.2010	0.1951	-13	0
UK		0.0156	0.0194	0.0191	0.0206	0.0207	0.0216	0.0263	36	38
Av.		0.1082	0.0991	0.1049	0.0986	0.0887	0.0984	0.1012		

UK: HI is based on data on an individual institution (not group) basis.

Table 2.3**CR 5 – loans of five largest credit institutions as a percentage of total non-bank loans**

	%-change									
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99
AT		28.87	33.91	37.32	36.66	43.24	43.45	43.30	28	16
BE	55.00	54.00	58.00	62.60	63.10	65.20	79.50	80.38	39	28
DE			13.48	13.83	13.26	13.71	17.53	15.75	17	14
DK	73.00	71.00	82.00	78.00	78.00	76.00	80.00	79.00	-4	1
ES	n.a.	37.48	31.53	44.00	43.60	43.00	42.90	47.90	52	9
FI	49.85	49.68	49.65	65.63	65.45	64.45	68.56	68.02	37	4
FR		48.70	44.70	46.80	48.60	45.60	46.40	46.40	4	-1
GR	n.a.	n.a.	87.16	78.89	76.57	75.08	70.78	74.53	-14	-6
IE	44.40	47.70	42.90	47.50	46.40	46.80	45.71	48.22	12	2
IT			28.90	36.26	35.70	34.36	42.58	47.57	65	31
LU				15.13	30.06	28.63	23.05	34.32	n.a.	127
NL		73.29	76.68	78.47	78.04	80.55	80.49	81.50	6	4
PT	60.00	60.00	57.00	73.00	76.00	75.00	75.20	72.90	28	0
SE		75.45	81.29	85.94	85.89	85.41	84.07	85.30	5	-1
UK				39.26	40.69	39.51	31.60	30.28	n.a.	-23
Av.	56.45	54.62	52.86	53.51	54.53	54.44	55.45	57.02		

Table 2.4**HI on total loans to non-banks**

	%-change									
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99
AT			0.0323	0.0401	0.0383	0.0701	0.0719	0.0725	124	81
BE				0.0893	0.0928	0.0969	0.1640	0.1671	n.a.	87
DE						0.0105	0.0126	0.0124	n.a.	n.a.
DK				0.1634	0.1567	0.1484	0.1607	0.1538	n.a.	-6
ES		0.0393	0.0332	0.0487	0.0466	0.0457	0.0458	0.0592	78	22
FI				0.1869	0.1759	0.1668	0.1924	0.1741	n.a.	-7
FR				0.0586	0.0637	0.0644	0.0672	0.0665	n.a.	13
GR			0.2480	0.1776	0.1641	0.1522	0.1259	0.1290	-48	-27
IE				0.0720	0.0630	0.0610	0.0600	0.0610	n.a.	-15
IT		0.0154	0.0146		0.0302	0.0312	0.0398	0.0590	304	n.a.
LU						0.0299	0.0393	0.0415	n.a.	n.a.
NL		0.1414	0.1286	0.1573	0.1547	0.1607	0.1605	0.1601	24	2
PT		0.1120	0.1007	0.1356	0.1416	0.1347	0.1362	0.1296	29	-4
SE		0.1960	0.1960	0.1710	0.1690	0.1990	0.1920	0.1768	-10	3
UK		0.0250	0.0342	0.0296	0.0319	0.0310	0.0297	0.0355	4	20
Av.		0.0882	0.0985	0.1108	0.1022	0.0935	0.0999	0.0999		

UK: HI is based on data on an individual institution (not group) basis.

Table 2.5**CR5 – deposits of five largest credit institutions as a percentage of total non-bank deposits**

	%-change									
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99
AT		32.01	33.12	36.24	36.05	38.93	40.24	39.58	20	9
BE	63.00	62.00	67.00	58.80	57.70	60.80	73.90	74.73	12	27
DE			11.57	12.55	14.02	14.19	17.22	15.01	30	20
DK	72.00	70.00	82.00	76.00	76.00	75.00	80.00	79.00	-4	4
ES	n.a.	35.79	36.28	42.40	41.60	40.90	39.20	45.30	25	7
FI	52.80	54.20	46.08	64.79	64.75	64.64	63.43	63.35	37	-2
FR		46.00	58.70	68.10	68.80	70.20	70.10	69.20	18	2
GR	90.03	85.97	86.78	82.75	81.73	79.06	77.00	81.65	-6	-1
IE	52.90	62.60	43.70	52.60	51.20	50.20	49.85	50.99	17	-3
IT			26.86	30.64	31.18	31.14	37.32	46.07	72	50
LU				22.48	27.76	28.02	23.49	28.09	n.a.	25
NL		78.18	79.50	81.89	81.26	84.18	79.97	83.37	5	2
PT	62.00	64.00	62.00	76.00	81.00	79.00	81.15	79.59	28	5
SE		90.62	90.55	88.72	87.34	86.96	84.58	83.49	-8	-6
UK				40.56	44.55	38.76	31.40	32.44	n.a.	-20
Av.	65.46	61.94	55.70	55.63	56.33	56.13	56.59	58.12		

Table 2.6**HI on total deposits from to non-banks**

	%-change									
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99
AT			0.0280	0.0344	0.0335	0.0499	0.0564	0.0541	93	57
BE				0.0800	0.0776	0.0855	0.1352	0.1352	n.a.	69
DE						0.0084	0.0093	0.0090	n.a.	n.a.
DK				0.1422	0.1420	0.1347	0.1526	0.1499	n.a.	5
ES		0.0394	0.0371	0.0460	0.0451	0.0438	0.0409	0.0542	46	18
FI				0.2180	0.2055	0.2067	0.1964	0.1900	n.a.	-13
FR				0.1333	0.1365	0.1354	0.1362	0.1333	n.a.	0
GR	0.3271	0.3286	0.2761	0.2262	0.2180	0.1918	0.1797	0.1828	-34	-19
IE				0.0820	0.0790	0.0700	0.0670	0.0700	n.a.	-15
IT		0.0122	0.0126		0.0367	0.0361	0.0467	0.0575	356	n.a.
LU						0.0243	0.0247	0.0283	n.a.	n.a.
NL		0.1660	0.1655	0.2053	0.1965	0.2105	0.1832	0.1877	13	-9
PT		0.1171	0.1191	0.1612	0.1743	0.1642	0.1671	0.1635	37	1
SE		0.2300	0.2340	0.1910	0.1820	0.1790	0.1720	0.1599	-32	-16
UK		0.0182	0.0240	0.0231	0.0258	0.0219	0.0234	0.0276	15	19
Av.	0.3271	0.1302	0.1121	0.1286	0.1194	0.1041	0.1061	0.1069		

UK: HI is based on data on an individual institution (not group) basis.

Table 3.1**Capacity – number of credit institutions**

										% -change	
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99	
AT	1,595	1,241	1,210	1,041	1,019	995	971	951	-21	-9	
BE	176	165	157	145	141	134	120	119	-24	-18	
DE	5,356	4,740	4,720	3,785	3,675	3,577	3,403	3,167	-33	-16	
DK	197	166	124	122	125	100	105	109	-12	-11	
ES		695	696	484	434	412	396	383	-45	-21	
FI	669	654	529	381	373	371	359	352	-33	-8	
FR		2,109	2,027	1,445	1,382	1,273	1,209	1,143	-44	-21	
GR	36	38	41	53	55	53	57	54	32	2	
IE	61	58	48	56	62	70	77	80	67	43	
IT	1,156	1,192	1,156	970	937	935	921	876	-24	-10	
LU	111	118	177	220	221	215	209	210	19	-5	
NL		81	111	102	101	100	100	101	-9	-1	
PT	35	224	260	233	228	235	229	233	-10	0	
SE		543	498	119	124	124	121	123	-75	3	
UK	619	655	624	578	555	551	527	494	-21	-15	

Table 3.2**Capacity – number of branches per 1,000 capita**

										% -change	
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99	
AT	0.45	0.54	0.58	0.58	0.58	0.58	0.57	0.57	-2	-2	
BE		0.87	0.90	0.76	0.74	0.72	0.70	0.68	-24	-10	
DE		0.61	0.63	0.59	0.58	0.57	0.55	0.54	-14	-8	
DK	0.71	0.72	0.58	0.44	0.44	0.43	0.43	0.43	-26	-3	
ES	0.62	0.76	0.83	0.93	0.95	0.97	0.99	1.00	20	7	
FI	0.80	0.73	0.66	0.39	0.34	0.32	0.31	0.30	-55	-22	
FR	0.45	0.47	0.45	0.44	0.44	0.44	0.43	0.43	-4	-2	
GR		0.17	0.19	0.23	0.23	0.24	0.23	0.24	24	2	
IE		0.24	0.27	0.29	0.30	0.32	0.29	0.28	4	-3	
IT	0.22	0.23	0.31	0.41	0.43	0.44	0.46	0.47	51	15	
LU	0.94	0.88	0.88	1.03	1.00	0.91	0.86	0.88	0	-14	
NL	0.67	0.59	0.54	0.44	0.44	0.44	0.43	0.40	-26	-10	
PT	0.11	0.15	0.20	0.35	0.38	0.41	0.43	0.48	138	36	
SE	0.44	0.43	0.38	0.30	0.28	0.32	0.25	0.24	-37	-18	
UK	0.37	0.37	0.35	0.29	0.27	0.26	0.26	n.a.	n.a.	n.a.	

UK: Not credit institutions, but major UK banking groups and building societies.

LU: Local and foreign branches (EU and non-EU).

Table 3.3**Capacity – number of employees per 1,000 capita**

	%-change									
	1980	1985	1990	1995	1996	1997	1998	1999	1990-99	1995-99
AT	8.28	8.94	9.70	9.48	9.40	9.33	9.27	9.25	-5	-2
BE	6.90	7.26	7.94	7.52	7.52	7.57	7.48	7.47	-6	-1
DE	8.67	9.46	11.10	9.28	9.17	9.16	9.15	9.22	-17	-1
DK	9.39	10.15	10.64	8.85	8.37	8.24	8.43	8.30	-22	-6
ES	6.41	6.06	6.22	6.70	6.29	6.29	6.24	6.25	1	-7
FI	8.90	9.61	10.06	6.30	5.49	5.13	4.84	4.71	-53	-25
FR	6.85	7.21	7.63	7.22	7.14	7.08	7.05	7.03	-8	-3
GR	3.40	4.40	4.61	5.07	5.21	5.25	5.30	5.38	17	6
IE		4.23	4.99	6.13	6.50	6.29	6.50	n.a.	n.a.	n.a.
IT	4.87	5.66	6.00	6.31	6.21	5.96	6.00	5.99	0	-5
LU	20.72	25.37	41.78	44.97	45.01	45.63	46.81	49.39	18	10
NL	7.60	7.54	7.86	7.77	7.94	8.20	8.23	9.39	19	21
PT	6.04	5.90	6.20	6.09	6.00	5.97	5.72	5.68	-8	-7
SE	3.81	4.73	5.32	4.91	4.89	4.88	4.92	4.88	-8	-1
UK	8.31	9.23	10.79	9.59	9.00	8.36	8.44	8.26	-23	-14