

## SPECIFIC ASPECTS OF THE PROCESS OF BANKING CONCENTRATION AND CONSOLIDATION IN THE EUROPEAN UNION

COPIL CRINA ANGELA

PHD STUDENT, UNIVERSITY OF ORADEA – DOCTORAL SCHOOL OF ECONOMICS,  
ORADEA, ROMÂNIA,  
e-mail: crina.copil@gmail.com

### Abstract

*In this paper I proposed to analyze the main aspect that characterized the process of bank concentration and consolidation in the European union, knowing their evolutions and particularities on the European and world bank sector and the effects that they have on the banks and the economy altogether. I presented the evolution of the number of banks, evolution that reflects the degree of consolidation of the bank system. Based on the financial crisis begun in 2008 the number of credit institutions decreased continuously as a consequence of the processes of bank mergers and acquisitions generated by the uncertainties of the economic perspectives. Also I analyzed the evolution of the degree of bank concentration in the European countries, process that underlines the degree of domination of the banking market accomplished by some great banks. We consider essential the knowing of this process because the increase of the bank concentration leads to the creating of some bank entities with very large dimensions, that in the periods of crisis can generate macro economic imbalances by involving the state in their subventioning. The research is based mainly on compiled statistic data offered by the European Central Bank (BCE), data that are published annually and that were processed to be able to offer an overview on the most important modifications that took place in the European union and in its representative countries.*

**Keywords:** European union, banking market, concentration, consolidation, Herfindahl-Hirschmann coefficient, coefficients of concentration

**JEL classification:** G21, G34, F65

### 1.Introduction

The process of concentration and consolidation of the banking market, the number of credit institutions and the capacity of the bank system had modifications along the time, modifications due mainly to the founding of the Economic and Monetary union, the appearing of the euro currency, the European economic integration but also due to the increase of the cross border operations developed in the European banking market. The process of financial integration in Europe has as a premise the enforcement of the European Unique Act in 1987 that is the departure point for the creation of an internal market of assets and services, but, as a consequence of the liberalization of the capital movement. The treaty from Maastricht from 7<sup>th</sup> February 1992 establishes clear rules regarding the future unique Euro currency, the external policy and of security, in the field of justice and internal affairs, and the denomination of European Community is replaced with that of European union.

In 1995 the European union includes 15 member states: Germany, France, Italy, The low countries, Belgium, Luxemburg, Denmark, Ireland, Great Britain, Greece, Spain, Portugal, Austria, Finland and Sweden. In 2004 ten more states adhered to the European union: Czech republic, Cyprus, Estonia, Letonia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, in 2007 Romania and Bulgaria and in 2013 Croatia.

I considered important the approach of the process of concentration and consolidation of the European banking market because as Boyd and Graham (1991), specialists of the Federal Reserve Bank affirmed, the process of bank consolidation is the answer of the market to the changes in the industry, that will bring greater efficiency, as would be benefits and a smaller rate of the bank bankruptcy. They see also the consolidation as an efficient way to transfer the resources from the bank sector, an industry affected by excess of capacity. The consolidation means thus, a decreasing of the number of institutions from the bank area, combined with an increase of their average dimension. The bank concentration measures the degree in which a market is dominated by only a few companies [7]. The level of concentration of the market offers an image of the degree of competition in a market, the measure in which the great banks are capable to control the market [5].

According to the academic literature there is a variety of factors that are at the basis of the bank consolidation in the European bank sector, factors that were observed also in other areas. In any area many reasons can be the basis of the decision to enter into a merger or acquisition, reasons that vary depending on the characteristics of the company, as

would be the size, the organizational structure or the strategy, the activity developed between many countries and entities.

The process of consolidation in the European bank market can be explained on the basis of two sets of factors: the maximizing of the shareholder value and other managerial reasons, but also on the basis of the external factors of the environment that govern the bank sector (of regulation, financial globalization, technological progress, the technology of information, of financial regulation, globalization of the financial markets and the increase of the pressure for performance) that determined the European bank institutions to adapt in order to be able to remain competitive [1].

## **2. Specific Aspects of the Process of Bank Concentration and Consolidation In the European Union until 2003**

The specific characteristics of the process of bank concentration and consolidation from Europe from 80's represents a preoccupation of the researchers due to the complexity and diversity of the process of reorganization and restructuring of the bank system, process that is characterized by different evolutions in each of these countries due to different factors, among which we specify: the method of elaboration and implementing of the strategies of restructuring of the bank system, the equilibrium and efficiency of the judicial system and the quality of the credit portfolio. Thus from the operational, financial and institutional point of view, the process of restructuring of the bank system had as results the increase of the financial intermediation and of the bank efficiency, the capital adequacy and the amelioration of the bank assets quality [2].

In the period of the 80's and beginning of the 90's the process of concentration and consolidation of the bank system began in a few countries from Europe, among which the most relevant are Nederland and Danemark, Finland, Spain and Great Britain. This process had as a result creating of some great bank institutions capable to compete with other banks of great sizes from the European banking market.

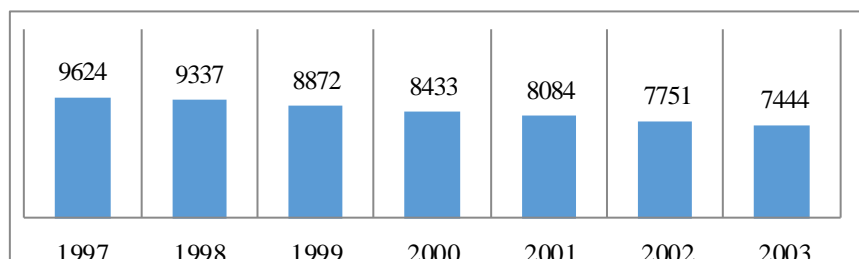
Even from this period, the methods of accomplishing the process of restructuring and reorganization of the bank system of the countries from Europe are diverse and have the form of bank mergers and acquisitions or of privatization of the bank institutions as a consequence of some factors that follow mainly the reducing of the costs, the increasing of the performances, of the innovations that take place in the area of technologies but also as a result of the process of globalization. The accomplishment of the process of bank mergers and acquisitions on the international and world level and the founding of the great financial conglomerates that offer a great range of diversified products and services, that act simultaneously on many markets and that include beside the bank activity subsidiaries of insurance, leasing, investment funds, pension funds, subsidiaries specialized on savings of credits or the predominant characteristics of the process of bank consolidation that took place in the developed countries but also in those in process of transition to the market economy.

In most of the countries in transition the bank system is a basic component of the financial system and the main way of financing of their economies and the process of restructuring of the bank system preoccupied many researchers. The countries in process of transition from Europe were involved in an ample process of consolidation determined by the extending of the great banks from Austria, Germany and Italy which in 1989 were involved in regional transactions that crsoosed over 27 billions of euro [2].

The extending of the developed banks, from the Western part of Europe to Eastern Europe, was accomplished by two methods. The first is the taking over of the inefficient banks by banks from developed countries, that followed the increase of the profit and their efficiency and the positioning in the line of the most developed banks from these countries, especially by the infusion of modern technology and some competitive strategies and methods of management. Another way of extending these banks has at its basis their aggressive entering on the internal market of the countries from the Central and Eastern Europe and the taking over of a local important bank. In order to increase the profit, the Western banks adopted the strategy of increasing the number of bank units. In Europe, most of the banks adopted the strategy to purchase important local banks in order to obtain greater market quota and implicitly, some considerable profits. Also, a way of the bank institutions to intrude from the Western part of Europe to Eastern Europe is the privatization of the banks owned by the state due to the attractiveness of these bank institutions for the investors, that considered this way as a way to have access on these markets and to increase the market quota.

The tendency of consolidation of the bank sector in the European union is visible even from the first years from its founding, in most of the countries, and is underlined by the decrease of the number of credit institutions.

In the following figure I presented the evolution of the number of credit institutions in the European union in the period 1997-2003:

**Figure no. 1. The evolution of the number of credit institutions in the European union in the period 1997-2003**

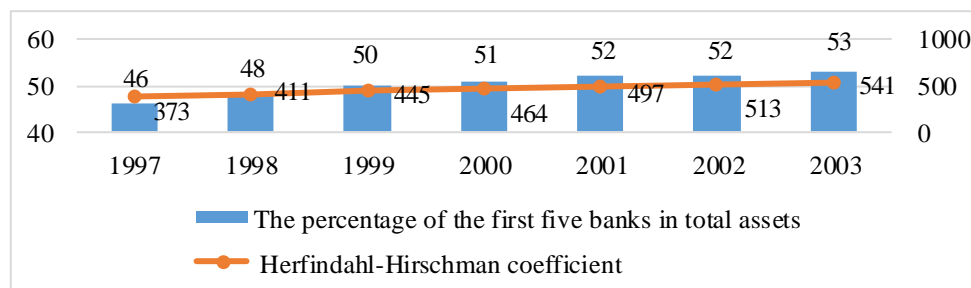
Source: ECB, List of monetary financial institutions, different years,

[http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&REF\\_AREA=308&node=4586742](http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&REF_AREA=308&node=4586742)

According to the ECB data (2004) given by the European central bank, we can observe that the rhythm of consolidation is very diverse on the level of each country. Thus, we can observe that in the great countries, as Germany, the number of bank institutions decreases from 3420 in 1997 to 2742 in 2000, respectively 2225 in 2003; in France the number of bank institutions decreases from 1258 in 1997 to 1099 in 2000, respectively 939 bank institutions in 2003. On the other side the number of banks remained almost constant in Greece: in 1997 the number of bank institutions is of 55, and in 2003 the number of bank institutions is of 59 following the intrusion of the bank institutions from the developed countries on the banking market of this country.

We can observe that in the period 1997-2003 the number of credit institutions from EU 15 decreased from 9624 credit institutions to 7444, a decrease with 2180 institutions, due to the banking mergers and acquisitions that take place in this period.

The concentration of the banking market measured by the percentage of the assets owned by the greatest five credit institutions in total banking assets or by the Herfindahl-Hirschman coefficient registered an increase on the level of some member countries of the European Union in the period 1997-2003. Thus the degree of concentration increases from 46% in 1997 to 53% in 2003 and the Herfindahl-Hirschman coefficient increases from 373 points in 1997 to 541 points in 2003.

**Figure no. 2. The evolution of the percentage of the first five banks in total assets and the Herfindahl-Hirschman coefficient, in the period 1997-2003, in the European Union (UE15)**

Source: ECB, Structural financial indicators, different years and ECB (2004, pp.35-36)

<http://sdw.ecb.europa.eu/browse.do?node=9484387>

The coefficients of concentration are formed on the basis of some structural factors, and the degree of concentration is directly proportional with the size of the market, thus, we can observe that in some smaller countries the degree of concentration tends to be greater due to the functioning on the banking market of these countries of some banking institutions of large sizes. On the other side, on a banking market of great size a smaller percentage of quota of the first five banks can indicate the functioning in efficient conditions of the banking system in the respective country. Thus, in Germany, which has a banking system including a great number of banking institutions, the percentage of the smallest banks in total assets increased from 17% in 1997 to 22% in 2003, and the Herfindahl-Hirschman coefficient increased from 114 points in 1997 to 173 points in 2003 which indicates the efficient functioning of the banking system from this country. Also in Great Britain the percentage of the greatest five banks in total assets increases in this period from 24% to 33%, while the Herfindahl-Hirschman coefficient increases from 208 point to 347 points. In Austria, a country with a banking system assimilated to the small size countries, the degree of concentration calculated as the percentage of the greatest five banks in total assets is relatively constant, of 44% while the Herfindahl-Hirschman coefficient increases from 515 points in 1997 to 557 points in 2003 [4].

### 3. Specific Aspects of the Process of Banking Concentration and Consolidation In the European Union in the period 2004-2013

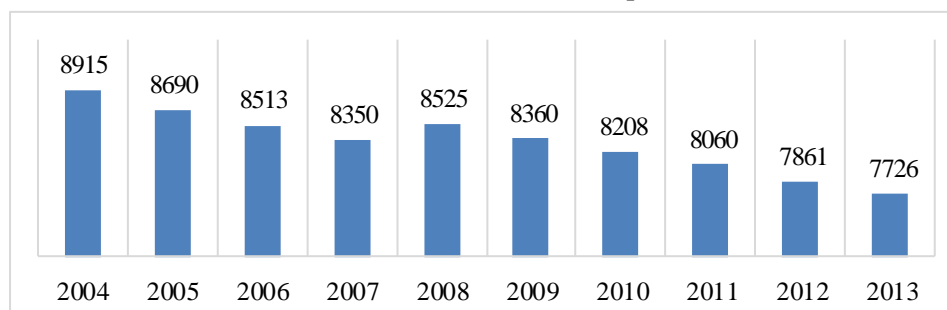
The consolidation of the banking market in the period 2004-2013 continued to progress and the number of credit institutions registered a constant decrease in the analyzed period. This evolution has at its basis the activity of banking mergers and acquisitions, activity that registers though, a decrease in 2004 compared to the previous years. The fall of the activity of banking mergers and acquisitions has at its basis the internal mergers and acquisitions, that decreased compared to the crossborder mergers and acquisitions that registered a positive evolution. The increase of the degree of financial intermediation, of the banking competition and limiting of the degree of concentration of the internal banking institutions, and the introducing of the euro currency are the factors that determined the positive trend of the activity of crossborder banking mergers and acquisitions. Also, an important role in this activity was that of the banking institutions that followed to develop in activities of retail banking.

The banking mergers and acquisitions in the European Union had a decreasing trend beginning with 2008, regarding the number of transactions and their real value. The number of transactions of crossborder mergers and acquisition decreased with approximately 50% beginning with the year 2008, due to the financial crisis that affected the banking system, due to the uncertainties related to the economic perspective, and due to some conservatory strategies of expansion, of the effort to consolidate the positions of capital and the concentration on the implications of the banking risks [6].

Thus, according to the data given by the European central bank the value of the transactions of mergers and acquisitions internal or crossborder decreased suddenly since 2007, the greatest value registered in this period being represented by the purchase of ABN Amro Bank by the consortium Royal Bank of Scotland, Fortis și Santander, and by the merge between Sanpaolo IMI and Banca Intesa. Globally the total value of the transactions of mergers and acquisitions decreased four times, to only 10 billions of euro between 2008 and 2012. In 2012 and 2013 there was no great cross border transaction, the activity of mergers and acquisitions that involves acquirors from the European union and from outside, remained modest even if there were opportunities generated by the prices of the banks' shares which were in difficulty. Also the reduced value of the transactions of internal mergers and acquisitions mirror a reduced capitalization on the internal market and the processes of restructuring [6].

In the following figure 1 presented the evolution of the number of credit institutions inside the European union in the period 2004-2013:

**Figure no. 3. Evolution of the number of credit institutions in the period 2004-2013 in the European Union**



Source: accomplished by the author on the basis of the data from ECB, List of monetary financial institutions, different years, [http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&REF\\_AREA=308&node=4586742](http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&REF_AREA=308&node=4586742)

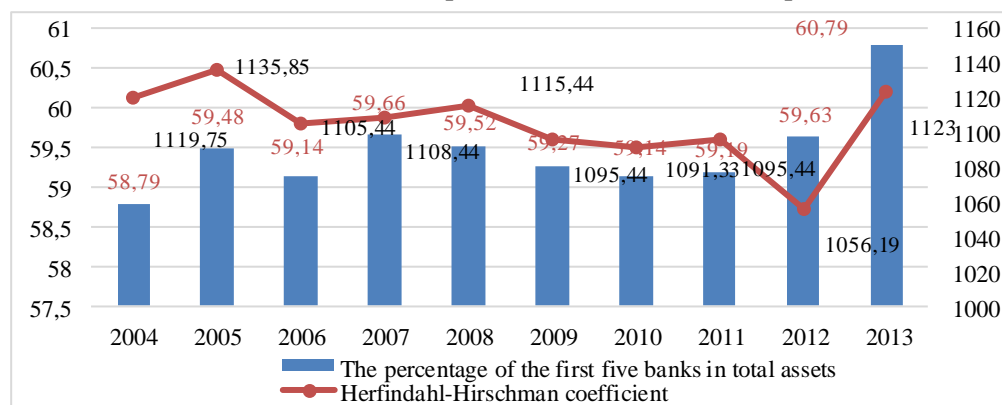
As a consequence of the trend registered by the activity of banking consolidation we can observe a decrease of the number of credit institutions in the analyzed period: thus, in 2004 the number of credit institutions is of 8915, in 2008 their number is of 8525, reaching in 2013 to a number of 7726 credit institutions. During the last years, the banking sector from the European union knew a strong process of restructuring against the process of banking consolidation from this period, but also due to the world bankin crisis, restructuring that has as a result also the decrease of the number of credit institutions. Thus, according to the statistical data given by the European central bank the number of credit institutions from Germany decreases from 2148 in 2004 to 1989 in 2008, following that in 2013 the number of the credit institution to register a new decrease raching to 1842 institutions. In Austria the number of the credit institutions register a decrease from 796 to 731 credit institutions, in Hungary their number decreases from 217 in 2004 to 189 in 2013, in Poland the number of banking institutions decreases from 744 in 2004 to 691 in 2013.

The concentration of the banking market measured by the percentage of total assets owned by the greatest five credit institutions or by the Herfindahl-Hirschman coefficient registered a moderate evolution on the level of some countries members of the European union in the period 2004-2013 thus the degree of concentration increases from

59,70% in 2004 to 60,79% in 2013, and the Herfindahl-Hirschman coefficient increases from 1120 points in 2004 to 1123 points in 2013.

The concentration of the banking market measured by the percentage of total assets owned by the greatest five credit institutions or by the Herfindahl-Hirschman coefficient registered an increase on the level of some member countries of the European union beginning with the year 2011 compared with the period before the banking crisis, reflecting mainly the decrease of the number of credit institutions due to less mergers and acquisitions in number in this period [6].

**Figure no. 4. The evolution of the percentage of the greatest five banks in total assets and the Herfindahl-Hirschman coefficient in the period 2004-2013, in the European union**



Source: ECB, Structural financial indicators, different years

<http://sdw.ecb.europa.eu/browse.do?node=9484387>

The coefficients of concentration mirror many structural factors and we can affirm that the banking systems from the great countries as Germany are fragmented and are characterized by a strong collaboration between the sectors of retail and corporation. Thus the quota of market of the greatest five banks in total banking assets in this countries increased from 22% in 2007 to 30,59% in 2013. The structure of the banking sector from Austria is assimilated to the great countries thus the market quota of the greatest five banks in total assets registered a decrease from 42,83% to 36,72%.

In the smaller countries the banking system are more concentrated, thus, in countries as Estonia the market quota of the greatest five banks in total assets is (in 2013) of 89,71%, in Slovakia is of 70,31%, in Croatia is of 72,85%, in Czech Republic 62,84%, in Slovenia 57,08% while in Hungary is of 51,87% and in Bulgaria is 49,85%. A greater tendency of concentration in the period 2007-2013 can be observed in case of Germany due to the reorganization that takes place between the banking groups from this country [6].

#### 4. Conclusions

The consolidation of the banking sector is a continuous process that depends among others of the degree of development of the financial system and the macro economic situation of the country. The European banking sector knew a period of restructuring in the 90's, that was manifested by a wave without precedent of banking mergers and acquisitions in most of the countries, and which had as result the creating of the great banking groups, the development of the activity of crossborder and cross sector mergers and acquisitions. The financial globalization, regulation and integration of the market, adopting of a unique currency, the technological and financial innovations, the increase of the share value were the main moving force of the waves of banking mergers and acquisitions. Even if, beginning with 2010, the activity of acquisitions and mergers in Europe stopped as a consequence of the world economic recession and the fall of the financial market, the process of banking consolidation continued. The financial system from the European union is characterized by the appearance of crossborder mergers, because the banking groups from the developed countries were motivated by the desire to take over the smaller banks from other countries to improve their efficiency, to intrude on new markets in order to increase the market quota and of the aggregate profits. We found that, during the financial crisis that began in 2007-2008 the process of consolidation was, in essence, one of restructuring. It was characterized by the acquisition of the small banks that were vulnerable due to their poor financial situation but also by the sale of some branches by the financial groups in order to reimburse some debts of the mother banks.

The number of transactions of cross border mergers and acquisitions decreased to less than half in the last years compared to the years before the financial crisis, especially due to the effects determined by the crisis on the level of the real economy, the uncertainties related to the economic perspectives, of some conservatory strategies of expansion. The efforts of consolidation of the capital positions and the concentration had serious implications on the interpreting

and approach of the banking risks, which determined a new increase of the degree of concentration in the European banking system and an attitude more and more cautious of the cross border business. We consider that an increase of the bank concentration leads to an inferior social welfare due to the increase of interests of credits that become thus more and more expensive and implicitly are avoided by the companies from the real economy but also due to the fact that by introducing some barriers at the entrance the competition is limited and the absence of competition in the banking sector is a factor that leads to the aggravation of the economic development.

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