

# Contents

	Page
List of tables	xiii
List of figures	xvi
Preface	xvii
<i>Chapter one</i> Introduction	1
Background	1
General perspective	1
Before the revolution	1
The new era	2
Changes in Western European banking	3
Analysing change	5
Towards the year 2000	5
A methodological backcloth	6
An integrative framework	7
Concluding Remarks	7
<i>Chapter two</i> Current trends in banking and financial systems	9
Introduction	9
Real and financial developments: stimulants of banking change	9
Economic and related sectoral trends	9
Financial systems and the macroeconomy	12
Banking regulatory and policy trends	14
European institutions and international influences	16
Perspectives of European banking systems	19
A short history of banking in Europe	19
Structural differences between European banking systems	20
European banking compared to US and Japanese banking	23
Conclusion	24

## CONTENTS

<i>Chapter three</i> Structure and performance	28
Introduction	28
Structure and competition	28
Historical and evolutionary perspective	28
The structure and performance relationship	29
Rules and regulations affecting structure	30
Competition and competitors	30
Size, concentration and performance characteristics	32
Size and concentration	32
Performance and ownership characteristics of the largest banks	34
Competitive pressures in the run-up to 1992	36
Structural trends and balance sheet effects	37
Conclusion	39
<i>Chapter four</i> Monetary regulation, 1992 and supervision	42
Introduction	42
Monetary policy in Europe	42
The monetary environment	42
Historical overview	43
Monetary aggregates and contemporary monetary policy	47
Financial innovation and monetary policy	49
European Monetary System and the European Central Bank	50
Banking supervision and 1992	52
The EC environment	52
Banking supervision and convergence	53
European convergence	58
Investment and securities business	59
Conclusion	60
<i>Chapter five</i> Changes in balance sheet structure	64
Introduction	64
Changes in balance sheet structures and income statements	64
Historical overview	64
Changes in balance sheet and income statement structures of all European banks	68
Changes in balance sheet and income statement structures of large European commercial banks	71
Changes in balance sheet and income statement structures of European savings banks	73
Developments in asset and liability management and OBS finance	73
Objectives and methods of asset and liability management	73

## CONTENTS

Off-balance sheet activities of European banks	76
Growth in off-balance sheet activities	77
Comparative capital adequacy, profits and PERs	78
Conclusion	81
<i>Chapter six</i> Retail banking	83
Introduction	83
A perspective of retail banking	84
Historical context	84
European trends: demand factors	85
European trends: supply factors	89
Market environment	93
Products and services	93
Competition	98
Technology	102
Balance sheet implications	106
Conclusion	107
<i>Chapter seven</i> Corporate banking	110
Introduction	110
A perspective of corporate banking	110
Historical context	110
European trends	113
Relations with industry	114
Market environment	117
Products and services	117
Selected country comparisons	118
Competition	119
The securitization challenge	122
Technology	124
Conclusion	126
<i>Chapter eight</i> International banking and foreign banks	128
Introduction	128
The internationalization phenomenon	128
Historical perspective	128
Modern international banking	130
Internationalization and globalization	131
International and multinational banking	133
Foreign banks and Europe	133

## CONTENTS

Nationality structure of international banking and the expansion of networks	135
Products and services	137
Innovation and fragility	140
Conclusion	141
<i>Chapter nine</i> Financial centres	143
Introduction	143
Major European centres	143
The history, role and development of major European centres	143
London	146
Frankfurt and Paris	150
Switzerland, Luxembourg and Amsterdam	153
Other financial centres and 1992	157
Other European financial centres	157
Copenhagen	157
Stockholm	158
Brussels	160
Milan	160
Madrid	161
Smaller financial centres	162
Why host an international financial centre?	162
General implications of 1992	163
Conclusion	164
<i>Chapter ten</i> Securities markets and business	167
Introduction	167
Capital markets	167
Historical perspective and the economic role of stock exchanges	167
A comparative overview	168
Exchange reforms	170
Securities business	173
New issues and trading	173
Rise of the Euroequity	174
Securitization developments	176
Risk-management products	181
Conclusion	183
<i>Chapter eleven</i> Investment banking	185
Introduction	185
Industrial structure and competition	185
Definitions	185

## CONTENTS

Historical background	187
Modern evolution and structure	189
Products and services	192
Market environment	192
Capital raising	194
Advisory, mergers and acquisitions	196
Brokerage, trading and investment management	199
Conclusion	202
<i>Chapter twelve</i> Banking strategy and 1992	204
Introduction	204
Strategic management challenges	204
Investment banking strategy after the crash	204
Strategic marketing orientation	207
The build-up to 1992	208
Towards 1992 and beyond	214
Organizational design as strategy	214
The size issue	215
Beyond economies of scale	216
Conclusion	218
Statistical and country appendix	221
Austria	222
Belgium	226
Denmark	230
Finland	235
France	239
Greece	243
Republic of Ireland	247
Italy	251
Luxembourg	255
Netherlands	258
Norway	262
Portugal	265
Spain	268
Sweden	272
Switzerland	276
United Kingdom	280
West Germany	285
Glossary	290
Index	294

# List of tables

2.1	Growth of GDP at constant market prices	10
2.2	Average annual growth rates	10
2.3	Net savings per capita as a proportion of net disposable income per capita at constant prices	12
2.4	Economic dimensions of the financial services sector, 1985	13
2.5	Summary of sector ownership of European banking institutions, 1988	21
2.6	Change in market shares of European banks by ownership category, 1983-8	22
3.1	Deposit bank assets as a percentage of GNP	32
3.2	Market concentration and size of banking sectors in Europe, 1988	33
3.3	Statistical summary of the ownership of top banks in the EC, 1987	35
3.4	Gross income as a multiple of operating expenses for commercial banks	38
4.1	Principal policy planning indicators in the early 1980s	45
4.2	Basle transitional arrangements	56
4.3	BIS proposals: some sample estimates, 1988	57
5.1	Percentage of bank liabilities remunerated on money market terms	65
5.2	Demand deposits as a percentage of total bank liabilities	66
5.3	Changes in balance sheet, income statement and other accounting items for all European banks between 1982 and 1986	69
5.4	Extreme values of European banks' balance sheet items, 1986	70
5.5	Changes in balance sheet, income statement and other items for large European banks, 1982-6	72
5.6	Changes in balance sheet, income statement and other items for European savings banks, 1982-6	74
5.7	Banks' off-balance-sheet items	77
5.8	Banking rates of return and capital adequacy in selected countries	79
5.9	Comparative profitability and capital ratios for <i>The Banker</i> Top 300 banks in Europe, 1987	80
5.10	Market characteristics of European banks	81
6.1	Spread of banking habit and wage payment methods	87

## LIST OF TABLES

6.2	Household financial wealth, debt and lend-back ratios, 1981 and 1986	88
6.3	Commercial banks, mutual and postal institutions, market shares, 1986	90
6.4	UK high-interest chequing accounts	94
6.5	Plastic cards, end-1986	96
6.6	Retail banking products expected to be offered by new entrants in selected European countries	100
6.7	Percentage differences in prices of standard retail financial products compared with the average of the four lowest national prices	101
6.8	Overview of payment systems and services in EC member states, 1986	103
6.9	ATMs in the European Community, United States and Japan, January 1987	104
7.1	Debt/equity ratios of the non-financial corporate sector	112
7.2	Funds raised by domestic non-financial borrowers	113
7.3	Lending to industry by the banking sector	115
7.4	The extent to which different European financial institutions are significant in providing business loans	120
7.5	Corporate banking products offered by new entrants in selected European countries	121
7.6	Competitive strengths and weaknesses in European corporate banking	123
8.1	Euromarket financial activities	132
8.2	Average size of 'international' banks in London	132
8.3	Foreign banks in selected European countries	134
8.4	International bank assets, by nationality of banks	135
8.5	Gross earnings margins of banks	137
8.6	The currency composition of reporting banks' cross-border positions	138
9.1	Economies of scale and financial centres	145
9.2	UK banking sector deposits, 1988	146
9.3	External position of banks in individual banking centres, end-1988	149
9.4	How Frankfurt compares with other stock exchanges	152
10.1	European stock market performance	169
10.2	Market value of securities listed on the ISE	170
10.3	International equities	175
10.4	Top lead and co-lead managers: international equities, 1987	177
10.5	Global commercial paper market	178
11.1	Selected indicators of primary Eurobond concentration	192
11.2	Management buy-outs and buy-ins in Europe, 1980-87	198
11.3	Growth of cross-border portfolio investment: pension and tax-exempt funds	200
11.4	Top 15 International ERISA fund managers	201

## LIST OF TABLES

12.1	Top lead managers of Eurobond new issues	206
12.2	Planning issues: country comparisons	206
12.3	Recent merger and acquisition activity in key European markets	209
A1.1	Austrian banking system: institutional and sector breakdown by assets	223
A1.2	Sector ownership 1983-8: Austrian banking system	224
A1.3	Top five Austrian banks, 1988	225
A2.1	Belgian banking system: institutional and sector breakdown by assets	227
A2.2	Sector ownership 1982-8: Belgian banking system	228
A2.3	Top five Belgian banks, 1988	229
A3.1	Danish banking system: institutional and sector breakdown by deposits	231
A3.2	Danish banking system: institutional and sector breakdown by advances	232
A3.3	Sector ownership 1983-8: Danish banking system	233
A3.4	Top five Danish banks, 1988	234
A4.1	Finnish banking system: institutional and sector breakdown by assets	236
A4.2	Sector ownership 1982-8: Finnish banking system	237
A4.3	Top five Finnish banks, 1988	238
A5.1	French banking system: institutional and sector breakdown by assets	240
A5.2	Sector ownership 1983-8: French banking system	241
A5.3	Top five French banks, 1988	242
A6.1	Greek banking system: institutional and sector breakdown by bank credits	244
A6.2	Sector ownership 1983-8: Greek banking system	245
A6.3	Top five Greek banks, 1988	246
A7.1	Ireland's banking system: institutional and sector breakdown by assets	248
A7.2	Sector ownership 1983-8: Irish banking system	249
A7.3	Top two Irish banks, 1988	250
A8.1	Italian banking system: institutional and sector breakdown by assets	252
A8.2	Sector ownership 1983-8: Italian banking system	253
A8.3	Top five Italian banks, 1988	254
A9.1	Luxembourg banking system: institutions	255
A9.2	Top five Luxembourg banks, 1988	257
A10.1	Netherlands banking system: institutional and sector breakdown by assets	259
A10.2	Sector ownership 1983-8: Netherlands banking system	260
A10.3	Top five Netherlands banks, 1988	261
A11.1	Norwegian banking system: institutional and sector breakdown by assets	263
A11.2	Sector ownership 1983-8: Norwegian banking system	264



## LIST OF TABLES

A11.3	Top five Norwegian banks, 1988	264
A12.1	Portuguese banking system: institutional and sector breakdown by assets	266
A12.2	Sector ownership 1988: Portuguese banking system	266
A12.3	Top five Portuguese banks, 1988	267
A13.1	Spanish banking system: institutional and sector breakdown by assets	269
A13.2	Sector ownership 1985-8: Spanish banking system	270
A13.3	Top five Spanish banks, 1988	271
A14.1	Swedish banking system: institutional and sector breakdown by assets	273
A14.2	Sector ownership 1983-8: Swedish banking system	274
A14.3	Top five Swedish banks, 1988	275
A15.1	Swiss banking system: institutional and sector breakdown by assets	277
A15.2	Sector ownership 1983-8: Swiss banking system	278
A15.3	Top five Swiss banks, 1988	279
A16.1	United Kingdom banking system: institutional and sector breakdown by assets	281
A16.2	Sector ownership 1983-8: United Kingdom banking system	283
A16.3	Top five UK banks, 1988	284
A17.1	West German banking system: institutional and sector breakdown by assets	286
A17.2	Sector ownership 1983-8: West German banking system	288
A17.3	Top five West German banks, 1988	289