Cross-border consolidation in Europe
Cross-border consolidation in Europe

Perspective of 3 decades of European cross-border banking

- Second Banking Coordination Directive – 1989
  - Single Banking Licence – 1993
  - Home country supervision model
- Eurosystenm - 1999
  - Originally 11 Member States increasing to the current 19
  - However no unfettered movement of liquidity in practice
- Financial crisis - 2007
  - Sudden end to the European banking integration process
  - Regulatory reform at the top of the agenda... for 12 years!
- Banking Union – 2014 onwards
  - Development of cross-border supervision in the Eurozone
  - However banks stay in domestic markets
Cross-border consolidation in Europe

BANK M&A TRANSACTIONS IN THE EURO AREA

Trend post-crisis

Source: Dealogic, Deloitte
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From cross-border bank consolidation

- Cross-border bank consolidation was an objective of the Banking Union
- So far only national transactions of significance

To cross-sector asset reallocation

- In the meantime, financial assets are moving away from the banking regulated sector which relative share is declining at a startling rate
Cross-border consolidation in Europe

TOTAL ASSETS IN THE EUROZONE FINANCIAL SYSTEM

<table>
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<th>Source: ZEB</th>
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**2008**

- **Banks**: 66.2% EUR 33.3 tr
- **Insurance and pension funds**: 11.9% EUR 6.0 tr
- **Other financial intermediaries**: 21.8% EUR 11.0 tr

**2017e**

- **Banks**: 37.0% EUR 27.5 tr
- **Insurance and pension funds**: 14.6% EUR 10.8 tr
- **Other financial intermediaries**: 48.3% EUR 35.9 tr
- **FINTECHS**: ~0.04%, EUR ~0.03 tr

**Total market**: EUR 50.3 tr

**Total market**: EUR 74.2 tr
Cross-border consolidation in Europe

Regulatory disincentives to banking consolidation in Europe

- Ring-fencing of liquidity
- Capital buffers at national discretion
- G-SIB added cost of capital
- Internal MREL
- Disparate insolvency regimes
- Divergent national laws: corporates, taxes, AML
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