

## Banking Consolidation in the EU: Overview and Prospects

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**Preliminary Draft\* , June 2003.**

### *Abstract*<sup>3</sup>

*The 1990's have witnessed an era of a profound restructuring within the European banking industry, materialised by an unprecedented wave of Mergers and Acquisitions. The creation of banking giants at the domestic scale, the development of cross-border and cross-sector transactions and thus the emergence of large pan-European financial groups have been the principle features of the latest banking consolidation wave. Financial globalisation, deregulation and market integration, the adoption of a single currency, the technological and financial advance, and shareholder value have been the main forces that fuelled the mergers and acquisitions wave over the past few years. Despite a break in the trend since 2001, due to the world economic downturn and the collapse of the financial markets, banking consolidation will continue. In this perspective, two figures appear to be fundamental. Firstly, the race to larger scale will lead to the homogenisation of banking behaviour and the emergence of a European banking dominant model.*

**Key words :** *Banking consolidation, mergers and acquisitions, efficiency, financial stability, shareholder value, banking model, collective welfare, banking structure, new technology.*

JEL Classification : G21 G34 G28

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<sup>3</sup> **Acknowledgements:** The Authors would like to thank Karel Lannoo (CEPS) for his useful remarks and fruitful comments. Nevertheless, the authors remain the only responsible for the contents of this article.

Comments are welcome

## EXECUTIVE SUMMARY

*Since the beginning of the 1990s, the European banking sector has witnessed an era of profound restructuring, materialised by an unprecedented wave of Mergers and Acquisitions (M&A). Its main characteristics were the emergence of “mega banks” at the national level, the increase of cross-border and cross-sector transactions at a community level and the constitution of broad European financial conglomerates. Besides financial globalisation, technological and financial innovations, the imperative of value creation, the deregulation of banking activities, the progress made towards the completion of an integrated European financial market and the introduction of the Euro, are some of the principal forces that fuelled the current process of banking consolidation in Europe.*

*Nevertheless, the world wide economic downturn experienced since 2001 has brought the M&A activity to its lowest levels compared to the mid nineties. But, this break in the trend is rather cyclical and it is expected that the world-wide M&A activity will continue. Indeed, to face the turmoil of the increase of risks, uncertainty and enhanced competition, banking institutions will adopt the most economic strategic means to cut their costs and enhance their revenues. Amongst others, M&A would be the perfect response and particularly in a regulatory environment which encourages such operations.*

*However, to assess the M&A wave of the nineties, many studies found that M&A are far from having proved their economic effectiveness. Consequently, one could question about the real motives behind these operations for managers and shareholders and the effects on collective welfare and on financial stability. Finally as big financial groups emerge, this might raise competition concerns when the concentration threshold in a relevant market is reached.*

*The recent consolidation process within the European banking industry, by accelerating the pace of strategic responses, might lead to the homogenisation of banking behaviours. This rises the issue of the emergence of a dominant banking model in Europe towards which the majority of the banking and financial groups would have to be oriented. Nevertheless, it seems that, yet no standard and/or single strategic rule guarantee the success of such a model. The only certainty is that the customers' satisfaction and the value creation approaches will remain the objectives of any strategic action to come.*