



Banking Supervision in Europe: The Crisis Agenda

Nicolas Véron
RIETI, Tokyo, 23 February 2009



About Bruegel

- **Non-partisan think tank**
- **Aim: improve quality of economic policymaking in Europe**
 - Wide range of research projects: growth policies, integration, monetary issues, trade, migration, capital markets, higher education, energy...
 - All levels: national, EU, global
- **Structure: non-profit association funded by its members' yearly subscriptions**
 - Public/private funding: 18 EU governments, ca. 20 large companies
- **Started operations in 2005**
 - Resident + non-resident scholars
 - 29 total staff, of which 21 in Brussels
- **More on www.bruegel.org**

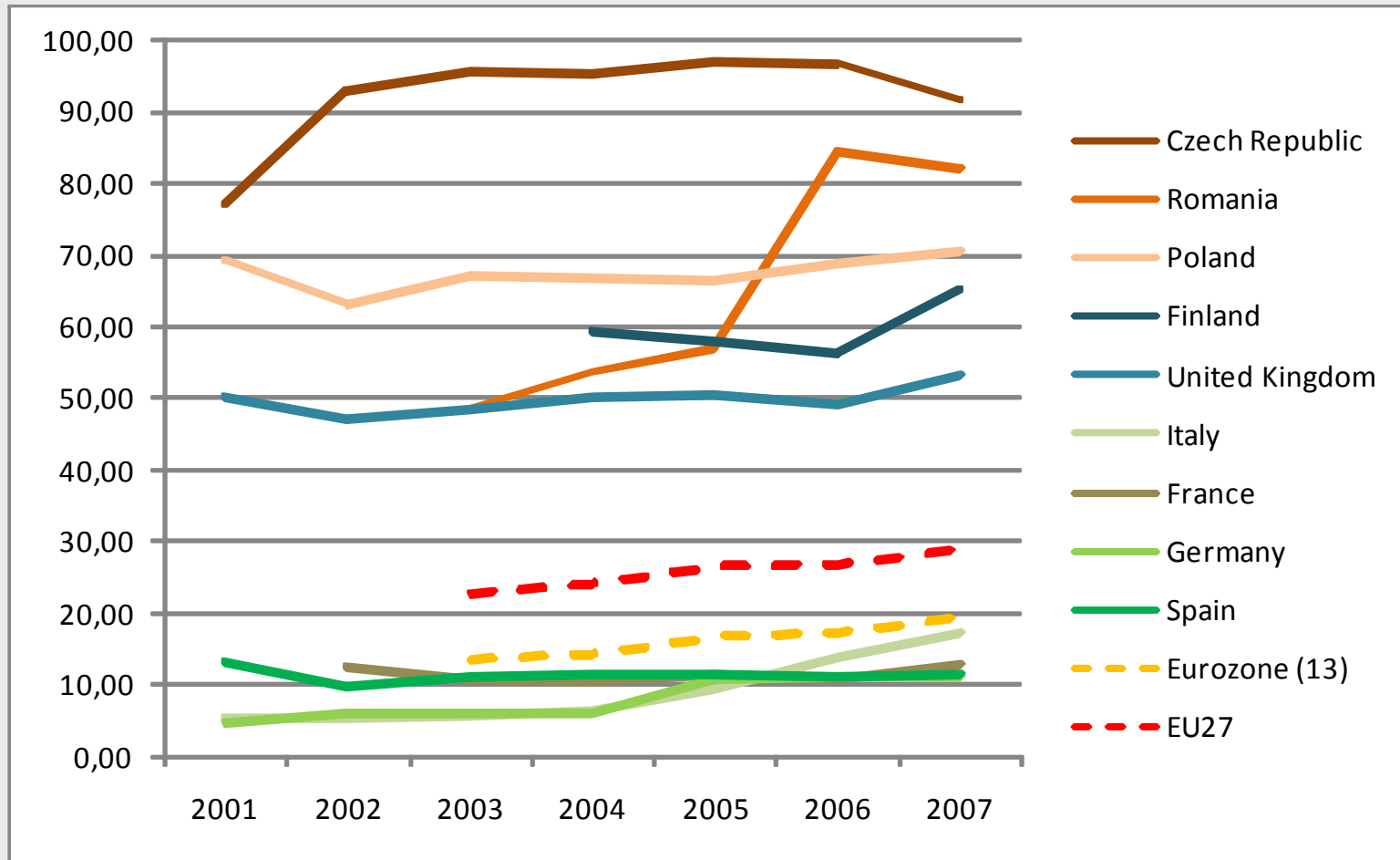


Europe's Policy Debate on Bank Supervision

- **Crisis management**
- **Prudential framework, capital / liquidity requirements**
 - Basel 2 tested by the crisis: improvements needed
 - Easier said than done
- **Supervisory architecture**
 - National models: autonomous supervisor, role of central banks, banking / insurance...
 - Literature inconclusive (which does not mean anything goes)
- **Specific cross-border aspect**
 - Because Europe has a more integrated banking industry than other regions
 - Significant growth in importance over past decade



Cross-Border Banking Integration in Europe



Share of foreign-owned assets (branches+subsidiaries) in national banking systems. Source: ECB



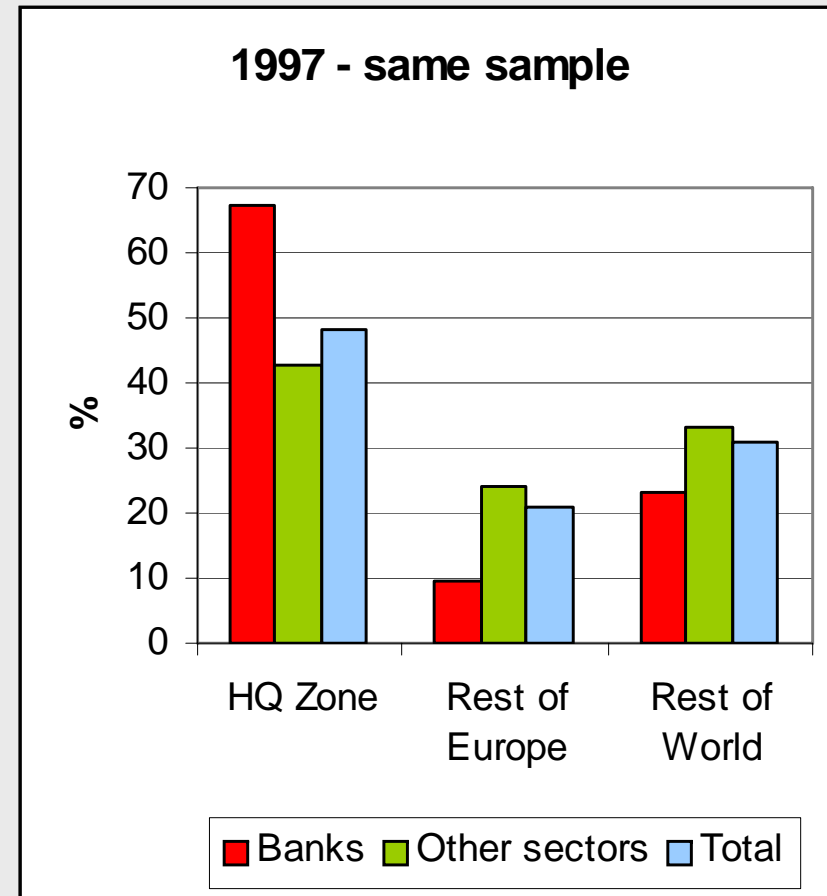
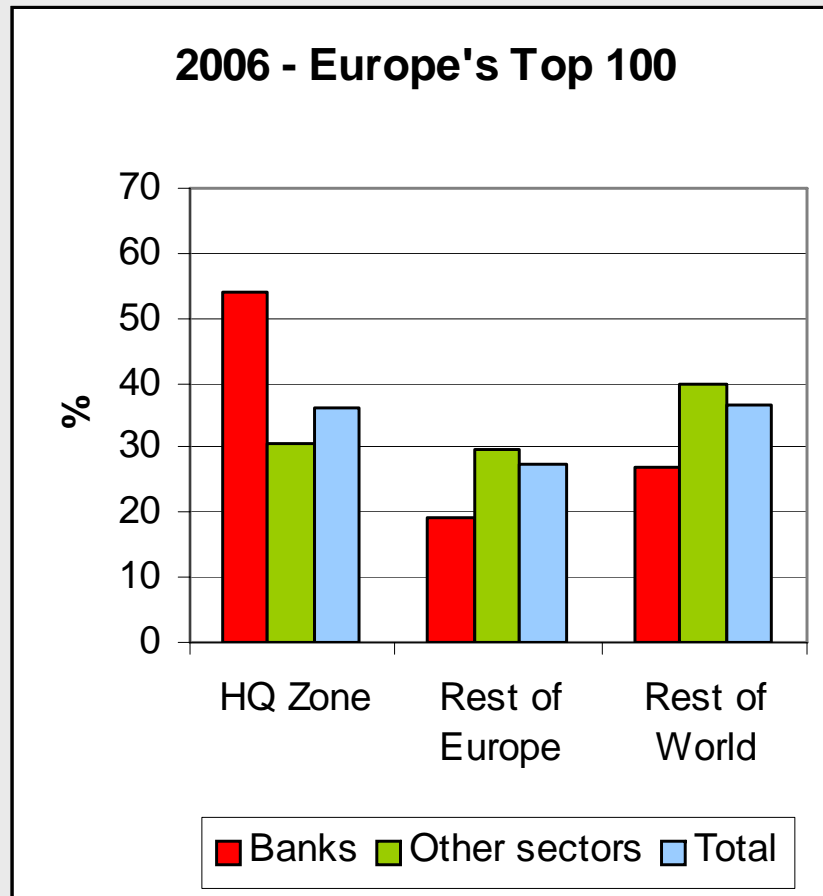
Cross-Border Integration: EU Banking Top 15

Share of Total Revenue		1997				2007				
		Home Country	[Rest of] Eurozone	Rest of EU27	Rest of World	Home Country	[Rest of] Eurozone	Rest of EU27	Rest of World	
1	HSBC	UK	37,8	2,6	0,3	59,3	23,4	8,0	1,3	67,4
2	Banco Santander	ES	61,4	7,1	0,0	31,5	31,1	19,1	12,3	37,5
3	BBVA	ES	63,9	0,6	0,0	35,5	48,4	0,5	0,0	51,1
4	Intesa Sanpaolo	IT	63,3	15,7	6,2	14,8	83,8	11,0	5,2	0,0
5	BNP Paribas	FR	72,1	6,8	2,8	18,3	46,5	17,2	8,5	27,7
6	Unicredito Italiano	IT	88,0	12,0	0,0	0,0	44,3	28,8	15,3	11,6
7	Societe Generale	FR	80,4	4,0	1,6	14,0	58,9	15,8	7,8	17,5
8	RBS	UK	81,2	10,9	1,3	6,6	62,0	10,5	1,7	25,8
9	Credit Agricole	FR	64,3	8,9	3,7	23,0	50,9	19,4	9,6	20,2
10	Standard Chartered	UK	15,9	0,0	0,0	84,1	2,0	0,0	0,0	98,0
11	Deutsche Bank	DE	63,2	7,6	7,6	21,6	28,9	19,0	10,2	41,9
12	ING	NL	48,1	7,3	2,5	42,1	37,3	34,5	7,1	21,1
13	Barclays	UK	75,8	8,4	1,0	14,7	57,1	12,6	2,0	28,3
14	Nordea	SE	27,4	72,2	0,2	0,3	22,8	35,8	41,4	0,0
15	Lloyds	UK	80,4	2,4	0,0	17,2	92,9	2,8	0,0	4,4
Average			61,6	11,1	1,8	25,5	46,0	15,7	8,2	30,2

*Geographical distribution of banking revenue: Bruegel estimates based on annual reports.
Ranking by market capitalisation: FT Global 500, 31 December 2008*



Still, Other Sectors Are More Integrated





Policy Trends Before 2007

- **EU Competition Policy / Single Market Policy enabled landmark mergers**
 - Champalimaud (Portugal, 1999)
 - Other cases: Italy, Poland, Netherlands, etc.
- **Supervision lagged behind**
 - Antonio Fazio in 2005
 - ‘Lamfalussy architecture’ (2001) extended to banking & insurance supervision in 2004
 - But CEBS (Committee of European Banking Supervisors) has no decision-making authority, and little resources
 - Concerns expressed already before crisis



The Crisis So Far (since August 2007)

- **ECB a well-functioning lender of last resort**
- **National rescues**
 - IKB, Sachsen LB, Northern Rock, Hypo Real Estate...
- **Two cross-border cases, both in Belgium**
 - Fortis & Dexia
 - Too early to judge; initial optimism at least partly misplaced
- **Most worrying scenarios not yet tested**
 - Western / Eastern divide



A Policy Trilemma

- **You cannot have it all**
 - Integrated EU banking market
 - Effective supervision of all banks
 - National sovereignty over banking supervision
- **Effective supervision can no longer be neglected**
- **Fragmentation, or more supranational framework?**
 - Familiar choice, but exacerbated by the crisis
 - Both short term + long term
- **Larosiere Report on Wednesday**
- **G20 Agenda: European / global integration**



Thank You For Your Attention

Nicolas Véron

+32 473 815 372, n.veron@bruegel.org

Rue de la Charité 33, B-1210 Brussels

www.bruegel.org