Banking Supervision in Europe: The Crisis Agenda

Nicolas Véron
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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](http://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

<table>
<thead>
<tr>
<th>Share of Total Revenue</th>
<th>1997</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home Country</td>
<td>[Rest of] Eurozone</td>
</tr>
<tr>
<td>1 HSBC</td>
<td>UK</td>
<td>37,8</td>
</tr>
<tr>
<td>2 Banco Santander</td>
<td>ES</td>
<td>61,4</td>
</tr>
<tr>
<td>3 BBVA</td>
<td>ES</td>
<td>63,9</td>
</tr>
<tr>
<td>4 Intesa Sanpaolo</td>
<td>IT</td>
<td>63,3</td>
</tr>
<tr>
<td>5 BNP Paribas</td>
<td>FR</td>
<td>72,1</td>
</tr>
<tr>
<td>6 Unicredito Italiano</td>
<td>IT</td>
<td>88,0</td>
</tr>
<tr>
<td>7 Societe Generale</td>
<td>FR</td>
<td>80,4</td>
</tr>
<tr>
<td>8 RBS</td>
<td>UK</td>
<td>81,2</td>
</tr>
<tr>
<td>9 Credit Agricole</td>
<td>FR</td>
<td>64,3</td>
</tr>
<tr>
<td>10 Standard Chartered</td>
<td>UK</td>
<td>15,9</td>
</tr>
<tr>
<td>11 Deutsche Bank</td>
<td>DE</td>
<td>63,2</td>
</tr>
<tr>
<td>12 ING</td>
<td>NL</td>
<td>48,1</td>
</tr>
<tr>
<td>13 Barclays</td>
<td>UK</td>
<td>75,8</td>
</tr>
<tr>
<td>14 Nordea</td>
<td>SE</td>
<td>27,4</td>
</tr>
<tr>
<td>15 Lloyds</td>
<td>UK</td>
<td>80,4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>UK</td>
<td>61,6</td>
</tr>
</tbody>
</table>

*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

Source: Martin Saldias & Nicolas Véron, forthcoming research based on FT Global 500 rankings
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