Report on the structure of ownership in the financial sector across the EU

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Main target

The investigation and evaluation of the evolution of the structure of ownership in the financial sector in the selected old (France, Germany, Greece, Italy, Sweden, the United Kingdom) and new (the Czech Republic, Hungary, Poland) EU Member States and its consequences with the special consideration of relations between this process and withdrawal of the State from the financial sector
The ownership structures in the EU financial sector
Corner ownership patterns

- **The UK - the first corner ownership pattern**
  - Limited influence of public authorities, exerted via few specialized agencies
  - Dispersed ownership with high number of recorded shareholders and low stakes controlled by the largest investors

- **Germany – the second corner ownership pattern**
  - High involvement of the State in the financial sector measured both by number of state-owned entities and their market share
  - High concentration of the ownership structure - the largest investors control significant blockholdings
The ownership structures in the EU financial sector
Intermediate ownership patterns in the old MS

Ownership structures in the remaining countries can be located somewhere in between the two corners

- France: the State is present almost solely in various special-purpose entities that fulfil socially desirable targets but their share in the overall assets of financial sector is small, the shareholdership is rather concentrated and the largest investors control significant stakes

- Sweden and Greece: the State is present in the financial sector via several specialized agencies, the shareholdership is rather concentrated and the largest investors control significant stakes in banks

- Italy: financial system is characterized by relatively dispersed ownership, high number of investors controlling banks and smaller stakes owned by the key investors
The ownership structures in the EU financial sector
Intermediate ownership patterns in the new MS

- Different patterns have evolved in the new MS
  - High concentration of the ownership, low number of shareholders: in many cases banks are owned by one foreign investor – parent bank
  - Domination of foreign investors
  - Limited public involvement in the financial sector
  - Differences in the State ownership in particular new MS:
    - In Poland the State has significant influence on the banking sector due to activity of the fully state-owned National Economy Bank and unfinished privatization process, as the government controls, directly and through National Economy Bank, dominating stake in PKO Bank Polski, the biggest bank in Poland
Consolidation and privatization and their impact on the structure of ownership of financial institutions in the EU

- M&As driven by domestic deals and privatization in the new MS
  - Following decline in the 2000-2002, an increase in the value of M&A was observed, mainly due to intensification of cross-border M&A
  - Cross-border M&As started increasing, both in absolute and relative terms, achieving a record high value in 2005

- Apart from benefits, quick privatization of financial sector of the new MS has negative consequences
  - Institutional infrastructure has not been developed fast enough in order to protect sustainable development of financial sectors
  - Quick privatization accompanied by competitive advantages of foreign banks has led to the establishment of the monopoly of foreign institutions, decreasing competition
Concluding remarks (1)

The evolution of ownership of financial institutions across the EU is linked with the corporate control mechanism, but:

- In continental European countries more market-based insider models have been evolved
- In outsider models the increasing role of shareholders has been observed, partially due to amendments to European law

As a consequence in the long term pure insider and outsider models and corner ownership patterns may vanish

Increase in similarity of corporate control mechanisms can make large financial institutions in different countries resemble each other
Concluding remarks (2)

- This would make financial companies more engaged in international flow of capital, limiting the fulfilment of core functions.
- Further growth of large financial institutions may petrify oligopolistic market structures.
- The new MS: growing interconnections between foreign subsidiaries belonging to the same parent groups increase the risk of cross-border contagion.
- The old MS: intensification of “too big to fail” and “too many to fail” problems as public authorities have to provide large institutions with public financial help if necessary.

*global banks are global in life, but national in death!*
Thank you!