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MERGERS AND ACQUISITIONS, AND CONVERGENCE OF THE RETAIL-BANKING IN EUROPE

Abstract

This article is an elaboration of the consolidation processes in the EU banking market, which is evolving towards the direction determined by international retail banking consolidations. These transactions have been recently hindered by regulation boards barriers and consumers, and also by promising opportunities of the development and creating the value in the inner domestic markets. At present the meaning of these barriers declines, but the character of the consolidation tendencies in the EU banking segment is similar to those which appeared in the last decade of the 20th century in the USA, where several large international banks were established (Bank of America, Wells Fargo, JP Morgan Chase). The M&A transactions, which have recently been realized and forecasted in Europe are leading to establishing several pan-European retail banks able to act on the global scale with the high value of the operating efficiency.

Key words: mergers and acquisition, EU banking sector, convergence, retail-banking

Introduction

Observation of real European banking process seems to confirm essential and growing meaning of competition in structural changes of banking sector. Establishing mutual connection between domestic and international banking is a clear and spectacular effect of these transformations. As the result international banking expansion (financial conglomeration) as well as markets and financial institutions is occuring. The evident expression of convergence is a growing process of disapearing national borders in banks activity, deregulation and liberalization and also technology progress.

Competition preassure and determination to increase size and effectiveness improvement, especially in certain periods, are the main causes of intensification of banks cosolidation process. Aspiration of European banks to extend a retail service segment has become the essential tendency. These aims are the most often accomplished by merger and aquistition. In addition, it is easy to identify some similarities of this process to the course of the American banking of the 1990s.

The aim of this study is to show the analysis of these phenomenon and processes, and of course it is just a try at treating compound and wide problems of modern banking sector transformations sketchily. The author's aim though is to treat this study as a point of departure and contribution to discussion in a wider range study due to the fact that the assimilation of banking markets issue is rarely taken under consideration.

The main thesis of this study states that intensification of European banking M&A processes aiming to search optimal range of these institutions activity is the indication of markets convergence and financial institutions in national and international scale, which leads to internationalization of European banking.

The study consists of three parts in which discussion concerning internationalization of banking sector in Europe, the essence of consolidation process in banking sector, consolidation course in banking sectors in the EU countries and USA, and the importance of retail banking segment in European banking activity is presented.

Internationalization of banking sector in Europe

The banking convergence is not only the effect of globalization but also its causative factor. Indication of convergence is growing internationalization of banking, and establishing mutual dependences between domestic and international banking. Acceleration of globalization and liberalization of financial markets make this process efficient. There are other factors such as foreign direct and portfolio investments and unifying consumption and technology standards (Solarz, 2001, p. 18-19).

International banks expansion is the effect of mentioned above processes as well as removal barriers in access to domestic financial markets. Traditional banks have developed their activity out of the country of origin following their clients. The main causes of banks expansion to foreign countries are:

- Low costs of banking service,
- Advantage in knowledge and skills over local banks,
- Creating bank prestige,
- Regulation arbitration,
- Defensive strategy of corporate and retail banking (following a client, raising cheaper deposits),
- Activity scale benefits, reduction of transaction costs in the country,
- Bank size growth (Solarz*,* 2004, p. 100).

The analysis of the motives accompanying bank service export in 144 countries has shown that the most important is the economy of scale. The countries with high potential and domestic market might be interested in bank service export, making access to the home market difficult. Small open economies can encourage foreign investors and carry out international passive banking model (Solarz*,* 2004, p. 100).

Modern banking is one of the most internationalized and automated field in economy activity reaching out of the country. Bank operation automatization enables the convergence of financial products and organizational forms in running business (universal banks, specialized banks). The fact that every kind of banks exists in each banking system proves their growing convergence (Solarz*,* 2001, p. 22).

Although modern researches concerning financial system convergence show that expected process of their assimilation has not occured entirely yet, banking system convergence can be stated (Kowalewski, 2003, p. 24). Anglo-Saxon specialized banks, which are regarded to be more effective, are trying to broaden their offer and include it to typical commercial banking service while commercial banks are active in the capital market. Among the factors of convergence process are merger and banks acquisition which enable overcoming and long periods operations of creating bank sections from the base (Lewandowski, 2001, p. 117).

Activation of deregulation and liberalization activities caused assimilation of banking system in the EU and also involved financial market unification. That was established as the result of long-term process of adjusting legislation of membership countries to the rules agreed together. Elimination of restrictive legislative solutions and rationing in banking sectors influenced on the rise in competition in the bank service market. It was due to new subjects entering the market such as domestic and foreign banking, and also other brokers[1].

Therefore the rise in competition occured not only for domestic and foreign subjects but also for those being out of banking sector.

Owing to this in the late years of XX century and at the beginning of XXI century temporary intensification of consolidation both in each of the country and of international scale was noticed. They were running into two directions; banking companies consolidation aiming to increase part in the market and integration with assurance companies to expand the offer and to make a good use of synergy effect (bancaassurance conseption).

The essence of consolidation process in banking sector

There are two hypothesis of essential meaning when considering consolidation. Firstly, consolidation processes are present in every banking system and their level of development is varied. Secondly, the factors on which consolidation decisions of the banks are based vary according to banking system development (Revell, 1995).

Banking consolidation processes in the modern banking system are the element of wider transformations such as:

- Growing deregulation of financial sector,
- Reduction of the government protection of the financial market,
- Financial markets liberalization,
- Growing competition in the financial markets.

These tendencies working together cause that in globalizing market conditions banks are forced to search “outer“ development possibilities. That is the result of the fact that the “inner” development, which mainly makes direct investments, is not sufficient.

The level of banking service sector development, which is stable in high developing countries, is of the importance for this issue. The outer growth, which is carried out by mergers and acquisitions, is becoming the fastest method of development in mature, stable and well saturated with banking service market. This method also leads to the increase of the value of the bank and its share in the market. It can be stated that in the conditions of running globalization and markets unification banking companies behave in the ways leading to the outer growth by mergers and acquisitions. They do so to gain the advantage over the competitors (Szczepankowski, 2000, p. 18).

For the second hypothesis a chain of phenomenon describing conditions in which companies decide for merger strategy can be shown. They are: rapid economic growth, pressure in the domestic and international market, accelerated technology progress, the growth of international operations of the companies and different motivation in making decisions concerning consolidation (Lewandowski, 2001, p. 17).

In rich banking literature there are many different explanations for banks mergers and acquisitions motivation. Each of them delivers various details and the selection of criteria.

The most general are:

- Synergy effects realization, assets and capital increasing, cost reduction and financing investment projects exceeding smaller banks’funds potential,
- Geographical expansion of branches chain,
- winning new clients and also strengthening and consolidation their connections with financial institutions,
- enhancing competitive position by broadening service offer and introducing innovations which are too capital-intensive for smaller banks,

[1] So called near banks of leasing and assurance companies, investment funds, companies producing payment cards, non banks - car concerns, software companies, mail-order companies.

- increasing profitability by gaining from commission in new service incomes compensating general tendency of the interest rate and margins in financial markets decrease, which is the result of competition sharpening,
- diversity of incomes sources, enabling development in the new activity fields, which makes banks resistant to the market fluctuations,
- speeding up the strategy decision-making in banking sector especially concerning innovations introducing,
- saving time and financial outlays on creating new products and techniques by getting the ready ones with acquisited companies,
- offering financial services packages, that is programmes of meeting all financial needs of the clients by the experts of different fields,
- better specialist utilization- for example by sending them to do some tasks in a definite time (Lewandowski, 2001, p. 17).

P.S. Rose formulates though the following list of consolidation motives (Rose, 1997, p. 219):

- expected growth of the bank profitability,
- determination for opening new markets and incomes resources,
- expected growth of shares in the credits, deposits and other services market,
- synergetic benefits from joining many corporation into one with decreasing costs and effectiveness increase,
- geographical diversity to reduce the risk by acting of the markets with different economy profile and income transfer ,
- diversity of groups of products to decrease the risk of resulting from small service profile for limited number of clients,
- determination for broadening activity and development by less costly way,
- board determination for obtaining better prestige (building the empire), which development enables the control of bigger organization,
- determination for increasing competition protection and capability for putting higher prices of the service provided.

Within the discussion the notable arguments are those of P.S. Nadler (1993, p. 164). Small banks do not have proper reserves to change the policy in the economic cycle. They do not have staff whose qualifications would allow any huge changes in both loans and deposits activity. Furthermore, small banks do not have enough money for staff training of the same range as the big banks. There is also a lack of financial reserves which would be sufficient for growing credits demand among borrowers who are developing their business activity.

Described above reasons for banks consolidation allow to state that there are not any differences in defining reasons for banks mergers and acquisition. The most often considered ones are potential benefits such as efficiency and profitability improvement, scale and range of activity broadening, shares in the market increase, activity diversity. Al of them cause competition improvement or competitive position strengthening.

Nethertheless it has not been decided whether all of the mentioned aims are obtained in mergers and acquisitions, or the meaning of some is overestimated. Global researches concerning banks consolidation effects do not confirm mergering institutions improvement. Some of them show a little progress in this issue while the others get worse results in the first three years after consolidation and improvement in the next years (Molyneux, 1998).

P.Molyneux (1998, p. 59) has offered a wide review of the researches results concerning banks consolidation effects. He divided them into two categories. One of them deals with event-day bank mergers studies which are carried out and estimate post factum. These studies show in many cases the lack of meaningful benefits which is expressed by costs decreasing due to mergers. “Generally they point out to the results obtained by American banks before and after the merger, where the study is carried out with financial indicators and capital value for defining changes in company behaviour” (Rhoades, 1986; Linder et al., 1992, p. 35-55; Berger et al., 1992, p. 541; Srinivasan, 1992, p. 17). M.M. Cornett and H. Tehranian have studied 30 mergers of big banks between 1982 and 1987 (Molyneux, 1998, p. 59). The authors point at meaningful increase of ROE factor by 3,9% and only a little increase of ROA factor by 0,1% in comparison to other banks.

The second category is the cost and profit function bank mergers study in simulated and real mergers and acquisitions. They are based on Tornquist productivity indexes, limit analysis defining merged banks position changes against not merged banks and efficiency scales obtained from Data Envelopment Analysis (DEA). They have been carried out in USA and Europe (Savage, 1991; Schaffer, 1992, 1993, p. 423; Berger et al., 1992, p. 541 and next; Rhoades, 1993, p. 411 and next.; Revell, 1987; Berg, 1992; Griefell-Tatje et al., 1995; Molyneux, 1998, p. 60-62.).

V.R. Venett studies concerning different types of mergers confirmed the improvement of the results for domestic EU banks merger of similar size. It turned out that banks participating in consolidation obtained worse than average in sector results during three years before the merger, and higher than average up to three years after the consolidation completion. Furthermore, in domestic acquisitions the acquired banks showed so bad results that the acquiring banks were not able to improve them considerably. However, in the international scale they led to effectiveness improvement. This effect was due to the fact that in the international acquisitions the acquisiting bank was bigger than the acquisited one (average size of the foreign acquisiting bank in a single trial was 88 billions US dollars, while the acquisited bank 3 billions US dollars concerning assets).

R. Ajadi and G. Pujals prove that merger of similar European banks may effect in cost efficiency improvement athought they mention that these results differ much beetwen banks and countries. Another study dedicated to post-merger profit efficiency analyse of European banks show that mergers of similar size banks have beneficial influence on their profitability (European Banking Consolidation ..., 2004, p. 18). J. Dermine also showed a wide survey of different analysis regarded to effects of European banks M&A in context of motives and results of M&A banks in USA (Dermine, 2002).

It is worth mentioning that mergers and acquisitions operations usually go with a high risk of failure. The bigger integrating institutions sizes are the more difficult the process of obtaining banks consolidation assumed effects is. One of the most significant factors for the consolidation success are the costs of necessary changes implementation into a new organization. They sometimes may influence on financial results decline even for a few years. “These kind of costs can be treated as modernization spendings which help to obtain better activity results. There are some difficulties in estimating these costs which consist of both spendings and reflecting lost profits. They are also spread over a period. This problem is often ignored which may result in too optimistic project estimation” (Lewandowski, 2001, p. 219-220).

In practice consolidation operations are accompanied by high costs due to organisation and staff changes, technical changes, severance pays and adaptation of the staff dismissed from office to new solutions. Another unprofitable factors are additional organizing units formation which makes reorganizational institution management easier. Such a situation may cause administration costs increase and finally activity efficiency decrease on the management level as the result of prolonged decision making process and bureaucracy procedures. Essential but hardly measurable group of costs arising in the integrating process are costs of staff teams reorganization. They are usually spent on workers training (as they have to obey new rules), severance pays for the dismissed from work. When the integrated bank decides to work in smaller but better qualified teams it must result in dismissals due to reorganization and labour productivity improvement. Sometimes stronger banks force to cast the managing positions with their own reliable workers and dismiss some of the workers from integrated units. Cuttings and personnel changes are often the main reasons for which merger projects must be modified (Stępień, 2004, p. 99).

Consolidation process in the EU countries banking sector

Banking sector in the EU goes through fundamental transformations. The essence and the rate of these changes result from several overlaping in a period tendencies. Since the late 1980s in the EU countries the actions were taken to establish the Common Market after 31st December 1992[2]. But only today after setting up the exchange union and Eurocurrency introducing we can talk about the final process of deregulation in the area of the currency union[3].

Because of that in the late 1980s conditions for stimulation banks merger and acquisition market appeared in Europe. In that period bank sectors in the EU despite numerous differences, which are not the subject of this article[4], showed some characteristic common features revealing in:

- assuming, for most cases, universal bank profile which enables banks to get engaged into wider range of retail, corporate and investment banking service. This banking model has been clearly visible in Germany, Sweden and Switzerland
- Total involvement of the government as the banks owner especially in Germany, Italy, Spain and in France. Since the end of the 1980s privatization processes have been playing the crucial role.
- Functioning close regulations concerning lawns and deposits interest rate. Meaningful issue was credit and capital market control almost in every EU countries excluding Germany, the Netherlands and Switzerland.

Fraction of banking systems particurarly in Italy, Spain, Portugal, France and Germany was characterized by considerable high fragmentation of financial institutions. Saving funds were dominating in the banking industry. However, they merged in groups or were taken over by big comercial banks because of the necessity of fulfilling regulations requirements and growing competition.

In the 1980s capital market played the main role making capitalization of the market in the majority of countries (excluding the Netherlands and Switzerland) very low. The government stocks market was better developed segment of the capital market. This situation was present in the countries with high government debt (Belgium and Italy).

In the last years of the 1990s mergers and acquisitions were intensified in western Europe both on domestic and international scale. These processes were following two directions: capital integration with other banks and integration with assurance companies (bankassurance) (Pietrzak, 2002, p. 104.). Observation of European banks activity in M&A transactions shows the existence of two geographical directions. First concerns banks mergers and acquisitions carried out within the EU, strictly inside the country. Second concerned geographical expansion into emerging markets, such countries as countries of south-east Asia, middle-east Europe and Latin America (Mergers and acquisitions…, 2000, p. 9).

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[2] By the year 1986 European banking industry was characterized by separation of financial markets in individual member country. Signing in 1986 the European Single Act resulted in clear defining the conditions of creating the Internal Market, whose establishing was based on four principles: free movemnet of goods, people, service and capital.

[3] On the road to the integration of the economy and finance of European scale there ware some regulation barriers being in effect in individual member countries concerning the control of the capital.

[4] Wider characteristic of differences between banking sectors in the EU countries should be found in: Report on consolidation …, 2001, p. 47-54.

Because of that the observation of M&A transactions carried allows to distinguish typical patterns of European banks consolidation. It is illustrated in Table 1.

Table 1. The EU banks consolidation patterns

Across banks	**Domestic banks M&A transactions** • The banks engaged in M&A transaction are from the same country	**International banks M&A** • M&A transactions with the share/participation of the banks located in different countries, among which one has the seat in the EU country
Across sectors	**Domestic conglomerates** • M&A transactions between banks, insurance companies and/or other institutions located in the same country	**International conglomerates** • M&A between the EU countries banks and insurance companies and/ or other financial institutions with the seat in other country

Source: Mergers and acquisitions involving the EU banking industry, ECB, December 2000, p.10

It is worth making a review of the causes accompanying particular transaction types considering the background of the EU consolidation transactions kinds typology. In domestic M&A transactions the most important are: economies of scale (notably for smaller banks), synergy effect and a definite range of diversity achievement , costs reduction by the chain and employment improvement, rationalization of headquarters departments, and also protection against taking over. Furthermore, by occupying better domestic market position, market force and a wider capital base.

International M&A transactions are usually accompanied by the main, crucial motive of obtaining region or world size enabling the service of major corporation clients that the banks often try to follow. The domestic consolidation reasons mentioned are also of the importance.

Establishing domestic conglomerates combines mainly with the expectations concerning the economies of scale induced by the sale of miscellaneous financial products (including assurance ones) to a wider group of clients. By spreading the range of the offered service and introducing more effective distribution channels banks try to prevent the deepening process of disintermediation. Due to appropriate combination of different activity space (banking and insurance service) the risk limitation, diversity increase and reduction of sensitivity to economic cycles are occuring.

Global banks the most often become financial conglomerates functioning in many markets simultaneously and making over 60% of their deals outside the country of origin. Their ownership are both domestic and foreign financial institutions with a high range of international activity (Mergers and acquisitions …, 2000, p. 22).

Particular development of this form of banking is caused by competition character changes in financial markets. These changes express tougher competition and also mean joining the competitor with innovations. Establishing multiproducts companies is justified by striving to minimize or reduce the risk, which increases the safety, and also lowering the uncertainty level. Financial conglomerate may limit competition activity making good use of its own financial resources for deterring new competitors or ruining one-product-competitor. Nethertheless, small banks, functioning in the market niche, have to exist in the banking system structure.

"These institutions, acting abroad, reduce trade problems and regulation restrictions. They also gain free access to the labour market, reduce costs, and maximize benefits of information technology development" (Pietrzak, 2002, p. 47).

It should be emphasized that in the 1990s dominating type of consolidation in the EU countries were mergers and acquisitions inside the country. They had a defensive character and were oriented to achieve considerable costs reductions and competitiveness improvement. The number of mergers and acquisitions data in Table 2 (1995-2000) show clearly that the intensity of bank consolidation processes took place especially in 1998 and 1999, and for those years banking mergers and acquisitions inside the country were dominant.

414 M&A transactions out of 497 concerned mergers and acquisitions inside the country, the rest of them with foreign partners. Also in 2000 the majority of mergers and acquisitions were carried out inside the country (172 out of 234).

Table 2. The total number of the European banks mergers and acquisitions between 1995 and 2000

	1995	**1996**	**1997**	**1998**	**1999**	**2000 (first 6 months)**
Total number of mergers and acquisitions	326	343	319	434	497	234
• Domestic	275	293	270	383	414	172
• in the EU countries	20	7	12	18	27	23
• outside the EU	31	43	37	33	56	39

Source: Mergers and acquisitions involving the EU banking industry, ECB, December 2000, p. 10.

It should also be emphasized that German, Italian, French and Austrian banks were mainly engaged nearly in 80% of all M&A transactions in that period (Table 3 shows the data).

Table 3. The total number of M&A transactions in the EU countries between 1995-2000

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**First 6 months of 2000**	**Average 1995-1999**
Austria	14	24	29	37	24	8	26
Belgium	6	9	9	7	11	3	8
Germany	122	134	118	202	269	101	169
Denmark	2	2	2	1	2	2	2
Spain	13	11	19	15	17	29	15
Finland	9	6	5	7	2	5	6
France	61	61	47	53	55	25	55
Greece	0	1	3	9	8	1	4
Irland	3	4	3	3	2	0	3
Italy	73	59	45	55	66	30	60
Luxemburg	3	2	3	12	10	8	6
Holland	7	11	8	3	3	5	6

Portugal	6	6	2	5	2	9	4
Sweden	1	2	5	1	7	2	3
Great Britain	6	11	21	21	24	19	16
Total	326	343	319	434	497	234	-

Source: Mergers and acquisitions …, 2000, p. 36.

The most important domestic and international mergers and acquisitions in the EU banking industry in their most intensified period are the following:

- Union Bank of Switzerland – Swiss Bank Corporation in Switzerland,
- Banco Santander – Banco Central Hispanoamericano in Spain,
- Royal Bank of Scotland – National Westminster Bank in Great Britain,
- Banque Nationale de Paris – Paribas in France,
- Societe Generale – Banque Paribas in France,
- HSBC – Credit Commercial de France (Great Britain, France),
- HSBC Holdings – Republic New York Corp. (Great Britain, USA),
- Hypo Vereiensbank – Bank Austria (Germany, Austria).

Regional consolidation involving several markets of the utmost importance understood as a region is worthy noticing in Europe. This strategy is undertaken by many European banks among others by German HVB Group[5], Belgian KBC, Italian Unicredito Italiano and Skandinavian Nordea bank[6].

By the end of the decade of the 1990s European banking mergers and aquitions had been carried out mainly on a domestic scale. That was due to different business culture in individual countries. In 2002 year analysts of the McKinsey company forecasted that mergers and acquisitions transactions in the EU banking industry will be in progress within the few following years on a large scale on the international size[7].

There were following reasons for this:

- Reaching by the strongest banks in Benelux, Ireland, Spain, Sweden and Great Britain shares which cannot be exceeded because of the competition regulations,
- Strong pressure of banks shareholders concerning profits (expected pace of profits growth approximately 10%),
- The law and regulations standardization in the EU countries improvement,

Considering general reasons mentioned, it was estimated that on the way of progressing consolidation three following types of the EU banking would be determined:

- "regional retail distributors", providing wide service to individual customers and small companies,
- "European and global wholesale banking", for large corporations and institutional investors (3 to 5 of them with 60-2000 billions EUR of the market value),
- "pan-European service providers" of European range dealing with domestic and international payments and clearing transactions (The time of great …, 2002, p. 21).

[5] HVB Group is one of the biggesst comercial banks in Germany with regional strategy of "regional banks" and effectiveness improvement, assigning its objectives achievement to consolidation transactions. The measure of the market HBV mergers and acquisitions success should be obtaining main retail bank position in the region of continental Europe.

[6] Nordea was established by the merger of Merita (Finland), Nordbanken (Sweden), Unidanmark (Denmark) and Christiania (Norway), now realizes the regional strategy in Baltic Region.

[7] See more in: Europe's banks: …, 2002.

Table 4. The total number of the European banks mergers and acquisitions between 2001-2004[1]

	2001	2002	2003	2004
Total number of mergers and acquisitions	145	114	95	86
• domestic	93	75	73	60
• in EU countries	39	37	15	21
• outside the EU	13	2	7	5

[1]25 EU countries have been taken into account included those which joined EU 1 of may 2004.

Source: Author's elaboration on a base of EU Banking Structures, ECB, October 2005.

Data refer to number of M&A of European banks in period between 2001-2004 (table 4) show that number of domestic mergers diminish while those taking place on EU market from 2003 are slowly increasing. Currently retail institutions mergers are the most intensive. Table 5 shows the biggest of them.

Table 5. The biggest mergers and acquisitions of financial institutions in Europe announced between January 2004 and September 2005

Date	Acquirer	Acquirer country	Acquired unit	Acquired unit country	Transaction value (billions US dollars)
June 2005	**Unicredito**	**Italy**	**HVB**	**Germany**	**18,2**
July 2004	**Santander**	**Spain**	**Abbey National**	**Great Britain**	**15,8**
May 2004	**Royal Bank of Scotland**	**Great Britain**	**Charter One**	**USA**	**10,5**
September 2005	**Allianz**	**Germany**	**RAS**	**Italy**	**7,1**
May 2005	**Old Mutual**	**Great Britain**	**Skandia**	**Sweden**	**6,0**
July 2005	**Unipol**	**Italy**	**Banca Nazionale del Lavoro**	**Italy**	**5,9**
September 2004	**Barclays**	**Great Britain**	**ABSA**	**RPA**	**5,0**
September 2005	**Julius Baer**	**Switzerland**	**Ehinger&Armand von Ernst**	**Switzerland**	**4,5**
September 2005	**ABN AMRO**	**Holland**	**Banca Antonveneta**	**Italy**	**3,9**
February 2004	**BBVA**	**Spain**	**Bancomer**	**Mexico**	**3,9**
January2005	**Standard Chartered**	**Great Britain**	**Korea First Bank**	**South Korea**	**3,3**
June 2005	**Unicredito**	**Italy**	**Bank Austria**	**Austria**	**3,3**

■ - **international banking acquisitions**

Source: "New scale play", Deloitte Research Report, p. 2.

The data in Table 5 show that within only 2 years 8 out of 12 acquisitions of the value higher than 3 billions US dollars were realized on the international scale and in some cases went out of the EU countries. It seems that despite of the clear acceleration the number of banking mergers and acquisitions will not exceed the level of the year 1999, which was recognised as the decisive one. It is estimated that on the base of the transactions which have already been realised and forecasted the structure of the banking industry in Europe will have been fully developed by several all-Europe institutions offering financial service and controlling the major part of retail banking and saving products market by the year 2010. Moreover, the retail banking market consolidation will result in the improvement of banks activity procedures and depreciation of the financial service prices.

Process of consolidation in the USA

The banks consolidation in Europe shows some similarities to the American consolidation with the same legislative barriers making interstates and international acquisitions difficult to realize. The banking industry fragmentation was also similar. So that, in the context of adopting American experience in the European banking consolidation it is worth looking at American banking transformations.

The changes in the banking and financial law influenced broadly the banking consolidation rate in the USA. The most important acts were: Garn-St. Germain Depository Act from 1982 and Competitive Equality Banking Act from 1987. The first one enabled interstate bankrupt banks buying with the assets of 500 mln US dollars or more, even if the buying broke the law inside of the state. The second one enabled buying large institutions endangered of bankruptcy and partnerships, with at least one or more banks facing the danger of closing, with the total assets of 500 mln US dollars or more.

Introducing in the 1990s the following legislations: Riegel Neal Interstate Banking and Branching Efficiency Act played the big role in the acceleration of the mergers and acquisitions process in the USA. Those legislations allowed buying interstate companies possesing a bank, banking mergers in different states, opening new branches in the other states and running bank activity in a form of the agent of the other bank or thrift societies with no interstate restrictions. Most of the other legislations were lifted in 1999 with the Financial Modernization Act, which maintained existing barriers between institutions defined as a bank or not a bank[8].

Actions described above caused competition development in the banking industry, and its natural consequence was consolidation. Moreover, meaningful competition appeared from the foreign banks, mainly Japanese, Australian, British and German.

In the USA the number of institutions in particular sectors was very high, in comparison to the other countries. That concerned mainly deposits institutions of three main types (Report on consolidation …, 2001, p. 43): commercial banks, thrift institution (savings banks and savings and loan associations) and credits union. Commercial banks were the largest in size and the number of branches. They provided service for households and firms. Table 6 shows the relevant data.

Table 6. The number of banks in the USA in the years of 90s .

Years	**1980**	**1990**	**1995**	**1999**
All banks	18711	15304	11790	10070
Comercial banks	14406	12195	9854	8505

Source: Report on consolidation in the financial sector, Group of Ten, January 2001, (available at www.bis.org),p. 407-408.

[8] There is no definition of “non bank”. It can be assumed that non banks are financial institutions which are not banks according to the law.

In the years between 1990 and 1999 the total number of banks in the USA decreased from 15304 to 10070 and for commercial banks from 12195 to 8505. This important decrease was accompanied by the increase of the size of the institution measured by the assets value and the share on the market. In this period the increase of the number and the value of the mergers and acquisitions was observed. Table 7 shows the data.

The year 1995 was the one of the most intensified activity on the domestic mergers and acquisitions ground. In that year 493 domestic M&A transactions and 30 international transactions were noted down. Considering the value the decisive year was 1998 (domestic transaction value of 371837,5 mln US dollars and international transaction value of 14657,2 mln US dollars, but the highest value in the decade of the 90s for the value of the international transactions was in 1999 and it reached the level of 31647,9 mln US dollars) (Report on consolidation …, 2001, p. 351).

Table 7. The total number and the value of mergers and acquisitions transactions in the USA between 1990 -1999

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Domestic transactions										
The total number	166	209	308	394	443	493	451	502	482	350
The total value (mln $)	4456	22077,4	20614,2	31988,4	32349,1	76677,3	47324,9	186752,5	371837,5	79777,7
International transactions										
The total number	20	14	9	12	12	19	18	27	25	30
The total value (mln $)	1482,2	339,7	98,0	796,0	2057,4	5942,8	11209,9	10992,4	14657,2	31647,9

Source: Report on consolidation …, 2001, p.351.

American banking consolidation process of the 90s was proceeding with different intensity. At the beginning it was a part of the restructuring and the reform of commercial banking. In the following years it caused gradual increase of the banks size and the value of mergers and acquisitions carried out. The overview of the major mergers and acquisitions in the decade of 90s in American banking are presented in Table 8.

Domination of the largest banks in the banking industry was one of the main effects of the American banking consolidation in the 1990s. Each year nationwide chain banks were established. In the year 2000 each of nationwide banks had a hundred or a few hundred branches, while the leaders in this group had a chain of several thousand branches.

In virtue of data contained in table 9 one may notice that number of banks M&A in USA is growing very slowly since 2003 with simultaneous, significant growth of value of all business transacted. In 2002 179 transactions of value 8,6 bln US took place in US banking system whereas 215 deals of value of 118 bln US were closed in 2004.

Table 8. The major mergers in American banking industry in the 1990s

Banks taking part in consolidation		Transaction value (billions US dollars)	The date of merger
NationsBank Corp.	Bank of America Corp.	43,2	1998
Travelers Group	Citicorp	36,0	1998
Norwest Corp.	Wells Fargo &Co.	31,7	1998
Chale Manhattan Corp.	J.P.Morgan &Co. Inc.	32,3	2000
Firstar Corp.	U.S. Bank	22,0	2000

Source: Author's elaboration on a base of Mergerstat Review 2004.

Table 9. The number and value of banks M&A transactions in the USA between 2000-2004

	Number of deals	Value (billions US dollars)
2002	213	90,2
2001	206	32,1
2002	179	8,6
2003	214	63,7
2004	215	117,9

Source: Author's elaboration on a base of data of SNL Financial LC.

The analysis of the American banking industry consolidation points at existence of the two opposable tendencies in the range of changes in the banking organization structure. One of them was the reduced number of existing banks while the other one was the increase of the number of branches due to the chain development. In addition, the methods and the systems of the customer service also improved (Kozak, 2005, p. 159).

Furthermore, the processes carried out in the American banking show some similarities with the tendencies present in the EU countries banking industry. Segments of American banking were separated with each other and divided with legislative and regulation barriers, similarly to Europe. The arguments confirming the necessity of consolidation together with unification of the legislation systems in the EU countries and disappearing of the national character of the banking products are acquiring significance, similarly to the USA. The studies of the mergers and acquisitions in the USA and Europe carried out by the analysts of Deloitte Research firm showed similar trends.

The importance of the retail banking segment in the EU banking activity

The term "retail banking" is the most often defined for the customers segment to whom the banking service is addressed i.e. individual customers. Its main target is to meet the customers needs completely in the range of payments, loans and savings, and also in a smaller degree investing, securing and assurance (Harasim, 2006, p. 13). There is also a definition which states that retail banking is the service of the market of mass customer who benefits from the service of the local branches of large commercial banks in the range of saving products, cheque accounts, mortgages, loans, debit and credit cards excluding private banking, which means wealthy clients (Harasim, 2006, p. 13).

Deregulation and liberalization, technology progress and reduction of the interest margin influenced on changes in the retail banking, which is today seen by the other banks as the separated cost-effective sphere of their activity and which requires concentrating on the strategy aspects. The high potential of this segment results also from the ability of internationalization of the activity and running it on global scale for a wide range of the service receivers. The receivers can be classified according to demographic and financial criteria, and also psychographic and sociological criteria. Implementation of modern technologies in the customers service has the important meaning. They enable the client to have an easy access the bank offer with the help of electronic channels and traditional attitude, which is a direct contact with a bank worker in a branch. There is the increase of importance of commissions and charges of the banks in the service of retail banking.

The retail banking service industry is currently one of the fastest developing financial service segments and is of the interest of the largest world banks. That is due to the growing stability and predictability of the retail service banking market and the lower risk of the household and small firms service. It also results from the development of the competition in domestic banking industry at the end of 1990s and growing attraction of this business line for the banks which not too long ago have been concentrated on their strategy activity mainly in corporation customers service, treating the retail banking segment as the source of financial means (Ślązak, 2005; Polish banking system …, 2005, p. 2-3). According to those it has been forecasting that by the year 2010 several large pan-European retail banks will have been established in the world scale and high operating efficiency.

The main factors causing currently acceleration of retail banking consolidation can be divided into two groups. The first group are economic reasons arising directly from the market: necessity of generating higher profits and conditions hindering self-growth, opportunity of using the economies of scale and efficiency improvement, and also opportunities of smaller banks taking over. Potential costs synergies and increase of the income are particularly important for banks. These benefits may occur for the banks with functional and efficient operating platforms (information technology systems), service systems and the products offer by the implementation of these elements in the acqusited banks. The suitable infrastructure and management are of the less meaning in the situation when the costs of information technologies systems are getting higher. The right unification of the information technology systems is the basic skill, which has been proved by domestic transactions in the EU as well as by large mergers and acquisitions in the USA (The new scale …, p. 10).

The second group are regulation factors: undertaking by European Commission the policy of limiting the barriers preventing banks mergers and acquisitions on the international scale and changing in Europe the retail financial service consumers attitudes and behaviour. Regulatory and legislative action towards the creation of a single market for financial services in the EU, notably the FSAP (Financial Services Action Plan), has so far concentrated on wholesale markets (EU Retail Banking..., p. 6). Nowadays one of European Commission politic priorities in creating homogeneous financial service market is acting in order to standardize retail banking market (White Paper December 2005) e.g. by reducing barriers for cross-border M&A.

In the opinion of the European Commission representatives the elimination of the barriers in international consolidation transactions will influence efficient functioning and competition in the financial service industry, and then the European economy. This is clearly seen in the thesis of Domestic Markets European Commissioner. It states that banking integration and consolidation improves the general economy state due to macroeconomic stabilization, risk diversity, economies of scale, decreasing the cost of capital and increasing the customers prosperity.

Nowadays in Europe the most crucial meaning for the banks clients (banking service consumers) has the value which they obtain for the price of a specific financial service unit. Therefore, the pressure for lowering the prices and competition development is growing in certain markets. The financial services prices differential is clearly noticeable for retail clients in particular countries (The new scale …, p. 11).

Conclusion

On the base of the studies shown the above the following conclusions can be stated. Banking mergers and acquisitions are present with different intensity and range in all banking sectors in market economies. In the decade of 1990s the changes in the environment the EU banking industry were the catalist. The regulation and liberalisation, as well as technology development and globalization played the most important role. They led to the competition between banks and on-going pressure on the competition improvement. The result of these transformations is also unifying banking industries and establishing mutual connections between domestic and international banking. Banks mergers and aquisitions are the indication of the markets and financial institutions convergence of national and international range. The literature analysis enables to state that the subject of banking industry convergence treated as one of the effects of consolidation process is not often discussed.

Currently the changes in the EU banking industry result from many factors such as: gradual elimination of regulation, political and culture barriers for pan-european banks mergers and the banks owners pressure for increasing the activity scale and profits growth. These causes influence the growth of the EU banks interest in the retail banking industry which has changed entirely. Spreading and differentiation of the offer for a retail client, introducing modern technologies enabling better access to the retail banking service, and also growing needs and expectancies of this segment clients should be mentioned as the most important changes.

Post analisys of retail banking in Europe tendencies induces to formulate recommendation for a future. As this article makes only contribution to disscused problems, the author's intention is to continue analisys of causes and effects of European retail banking M&A in bearings of their efficiency and these process influence over and connection with banking system in Poland. Moreover in national literature there was not much place devoted to retail banking market changes and its reasons in Europe. So it seems important to start investigate these processes.

On the base of the studies in this article the most important tendencies of retail banking development in the following years are:

- intensification of tendency to wards business consolidation and establishing large banking groups of domestic and international size,
- establishing and expansion of international banks with the seat in Europe,
- competition growth in the banking retail service market.

Unity of these trends reflects in the EU banking consolidation process which in the nearest years can lead to establishing of several pan-european banks having the character similar to the banks in USA. With the growth of the activity scale, modernization of the offer and profits increasing the biggest European banks will be able to compete with global banks.

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