WHY SHOULD WE REFORM THE BANKING SECTOR?

Finance Watch

WHAT DOES THE EU BANKING SECTOR LOOK LIKE?

8000
FINANCIAL INSTITUTIONS

€46,000 BN
IN TOTAL ASSETS

TOTAL ASSETS REPRESENT
370%
OF EU GDP

However, 15 mega-banks (0,1% of all banks) account for a huge part of the EU banking system total assets.

15 OF THE EU'S LARGEST BANKS

OWN €20,000 BILLION TOTAL EURO ASSETS (2011)

43%
OF TOTAL ASSETS IN EU BANKING SECTOR

= 150% GDP

OF THE ENTIRE EUROPEAN UNION GDP: €12,268 BILLION (2010)

LEARNING FROM HISTORY

1933

THE UNITED STATES VOTE THE GLASS-STEAGALL ACT FOR THEIR BANKING SYSTEM, BASED ON TWO MAIN PILLARS...

1: The creation of a single federal supervisor (FDIC), able to deal with banks' failures.

And

2: The separation of investment banks and deposit banks.

FDIC successfully dealt with banks' failure for more than 65 years...

1999

DROP OF MANDATORY BANKING SEPARATION

Drop of the mandatory separation of investment banks and deposit banks led to the development of giant financial institutions. Those institutions benefit from implicit public backing thanks to their deposit-taking arm.

2008

PUBLIC MONEY TO THE RESCUE

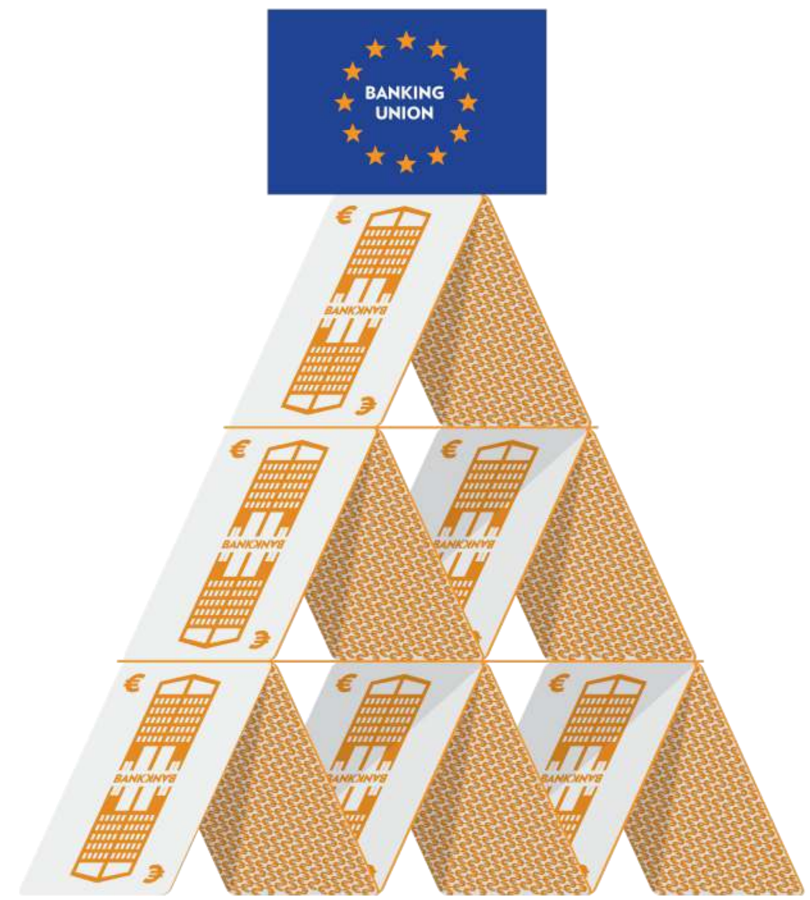
For the first time is its history, FDIC was unable to resolve a bank without costing money to tax payers. Washington Mutual was the biggest failure FDIC ever had to deal with. It was however just 10% of the size of today's largest European banking group, with a much simpler structure than most European universal banks...

2013

WHAT LESSON CAN WE DRAW FOR THE EU?

How could the EU be able to resolve the largest and most complex EU banks, when the long-experienced and successful US authorities could not resolve a much smaller and simpler case?

What if one of these mega-banks collapses?
The institutional framework would not be able to cope with the problem.
Public money would again be called to rescue.



Sources: European Central Bank; Liikanen Report