

Consolidation and Strategic Positioning in Banking with Implications for Europe

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This study seeks to identify the fundamental forces driving the restructuring in the financial services sector. It starts out with a discussion of the growing research in the field of financial intermediation. This research, while theoretical in nature, provides valuable insights into the economics of banking. From this rather fundamental level, I examine the existing empirical evidence on the scope and scale economies in banking. This evidence is far from conclusive. One key problem is that researchers have looked at scale and scope economies too generically. The literature needs to differentiate more between the various activities (services and products) of financial intermediaries. Another key message is that strategic considerations are the driving force behind the current consolidation wave. As I will argue, these considerations may have little to do with true scale or scope economies. Rather, learning first-mover advantages and the strategic advantages of market power and associated "deep pockets" may explain the current consolidation wave and the broad scope of many of the players in the industry. The paper concludes by offering some thoughts on the (to be expected) disaggregation of the value chain, with a more prominent role for alliances and joint ventures. I will also discuss some political considerations, particularly in the European context, that may have an important impact on the future path of the ongoing restructuring.