

# US and European banks – two sides of the same story?

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Think Tank of Deutsche Bank Group

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# Agenda

**1**

**Introduction**

**2**

**Consolidation**

**3**

**Diversification**

**4**

**Regulation**

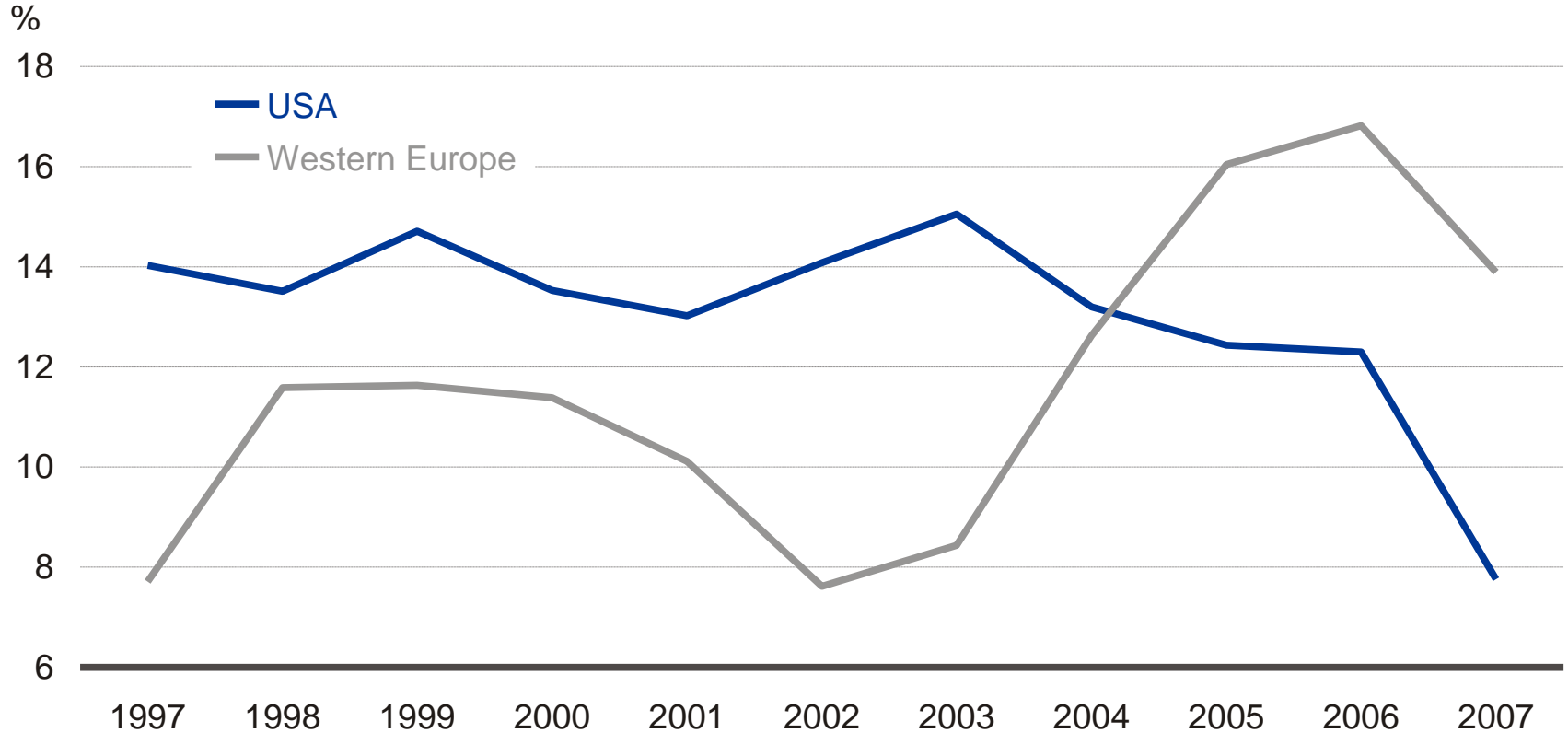
**5**

**Conclusion**



# The Europeans catch up

## Post-tax return on equity of US and European banks



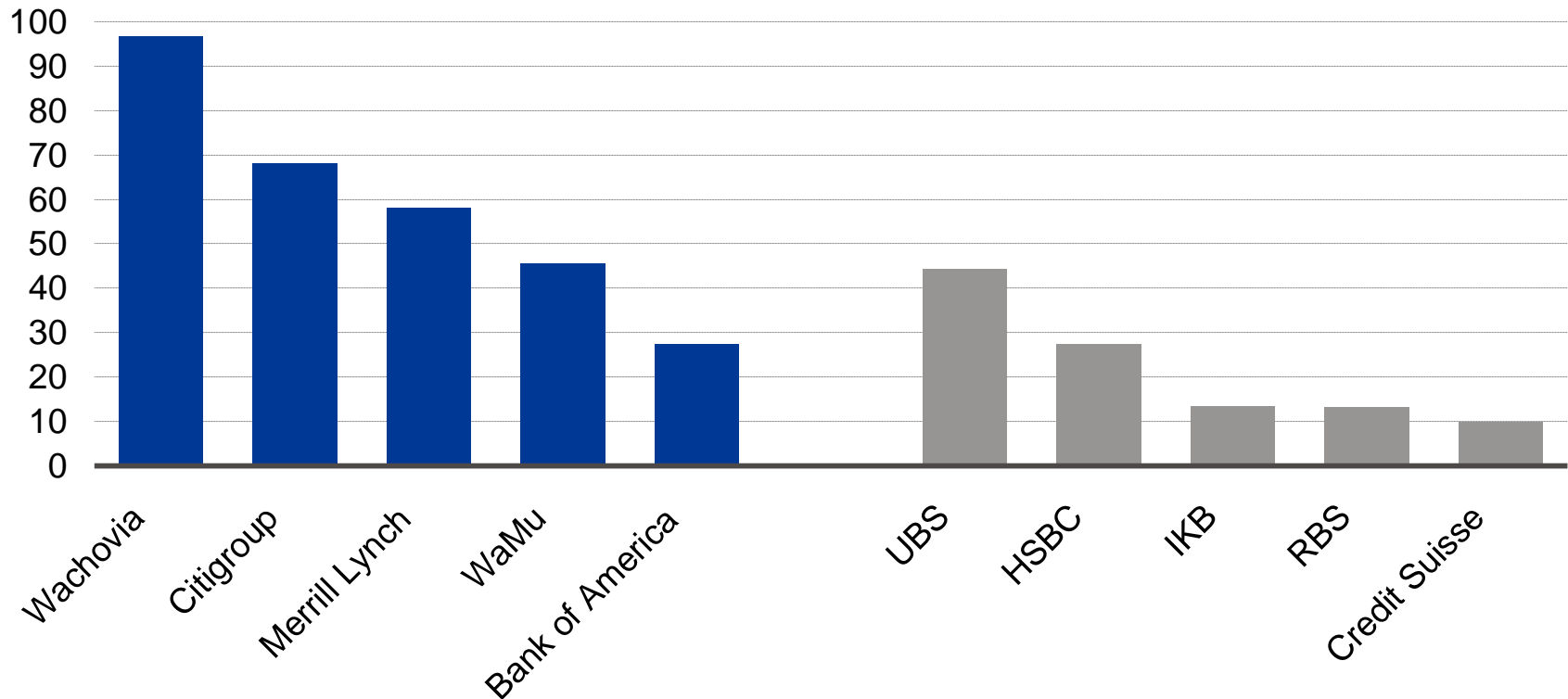
Sources: FDIC, OECD, ECB, national banking authorities, DB Research



## ...and share the subprime losses

### Writedowns and credit losses in the subprime crisis

USD bn



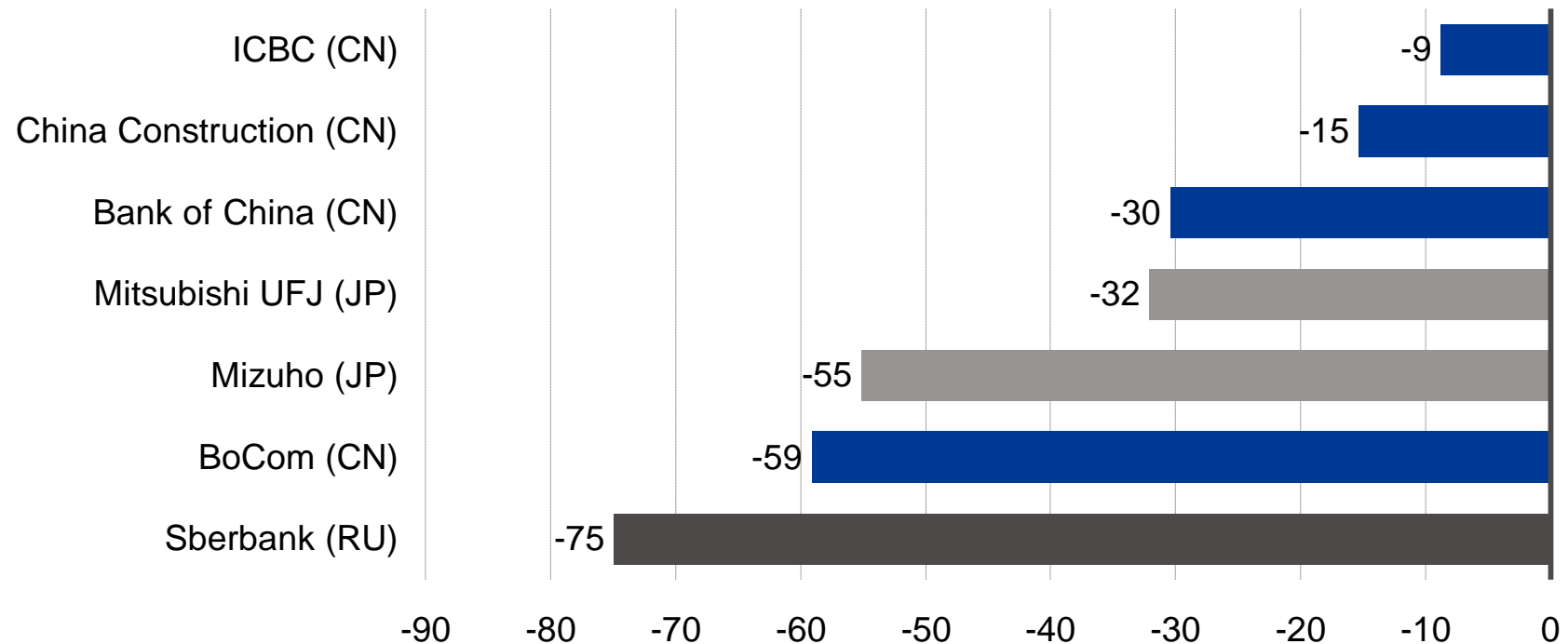
Source: Bloomberg



## ...but other countries' banks affected as well

### Market cap loss of emerging market and Japanese banks in the credit crisis

% change; Jun 12, 2007 to Oct 21, 2008



Sources: Thomson Financial, Bloomberg, DB Research



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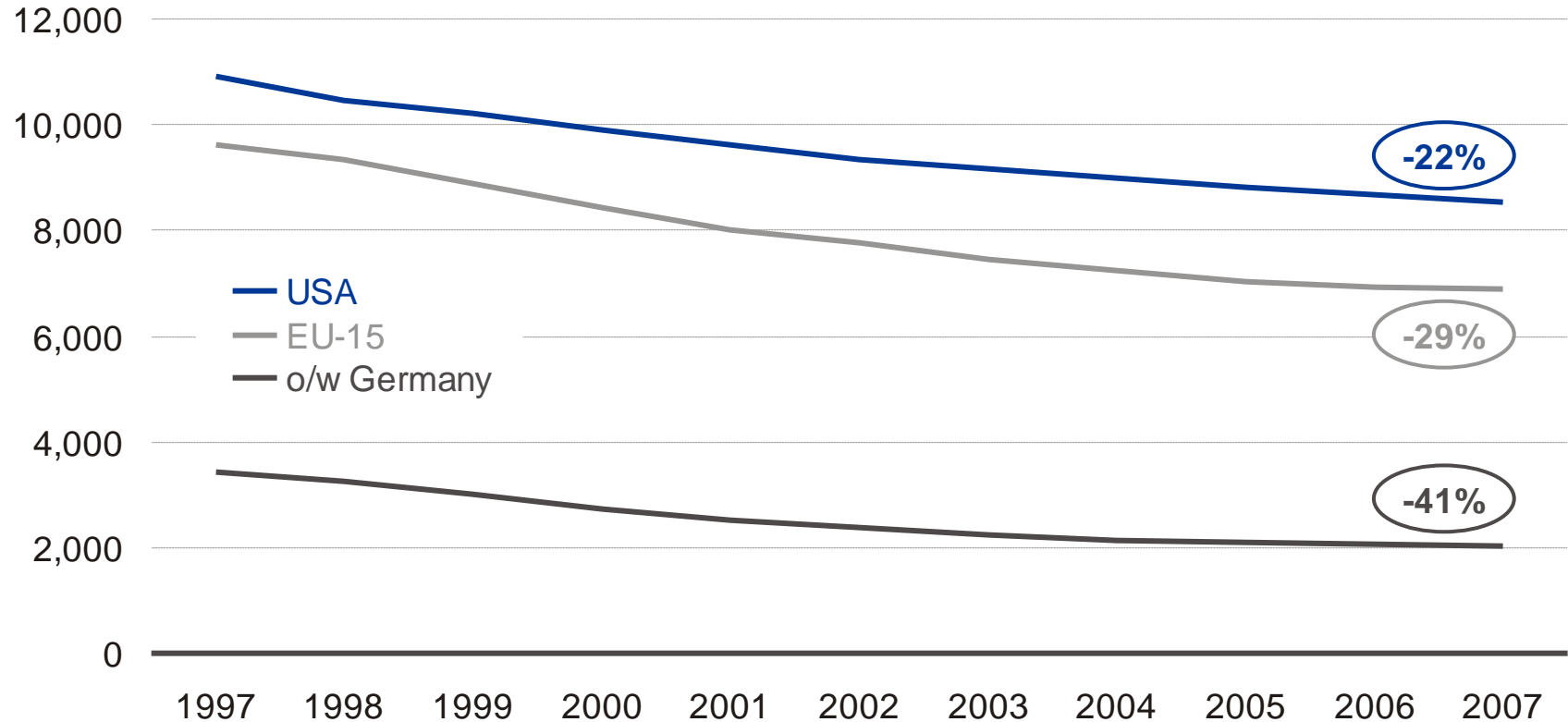
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# Consolidation side by side

## Number of banks



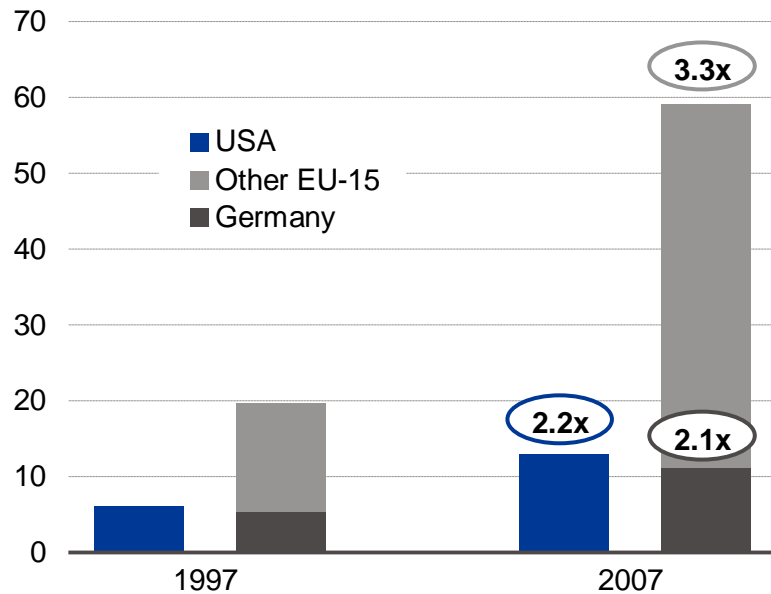
Sources: FDIC, ECB, DB Research



# A matter of size

## Size of banking markets

Total assets in USD tr

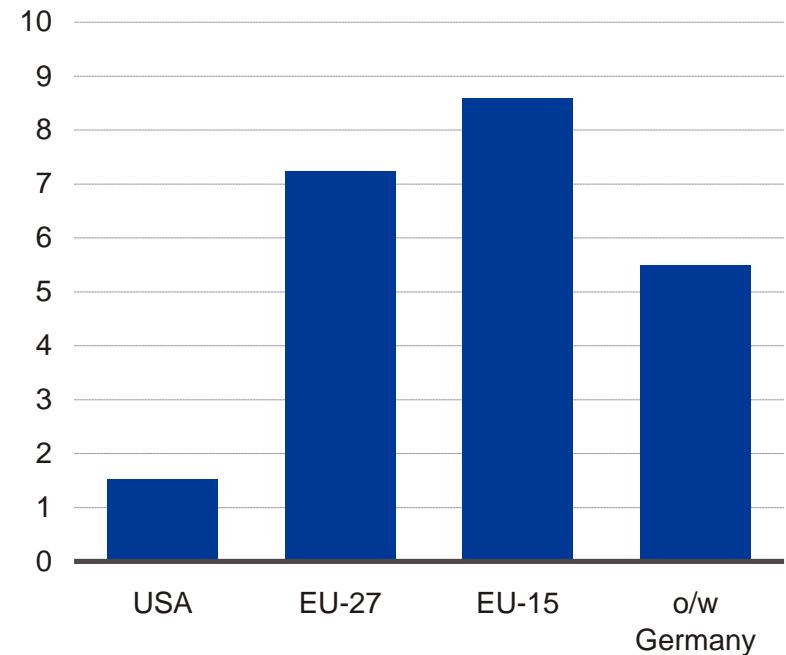


Does not include some investment banking assets in the US.

Sources: FDIC, ECB, DB Research

## Average bank size

Total assets in USD bn, 2007



Sources: FDIC, ECB, DB Research

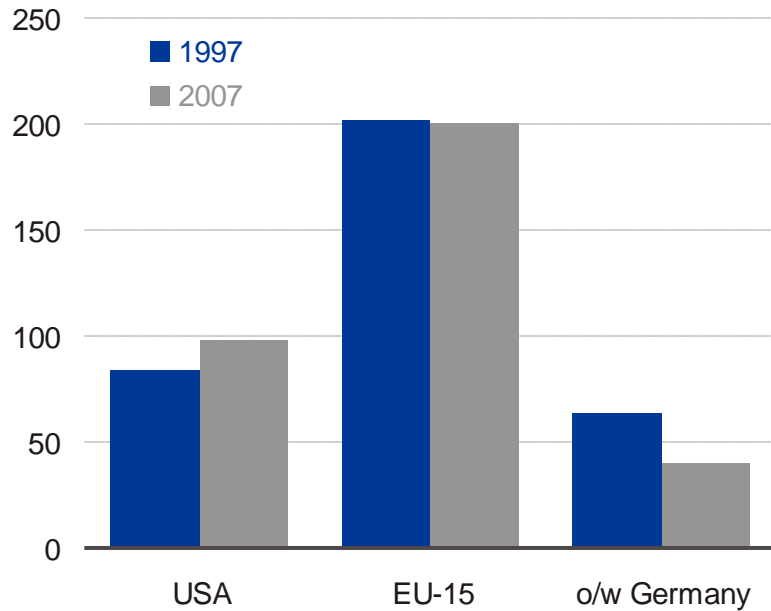




# Branching convergence

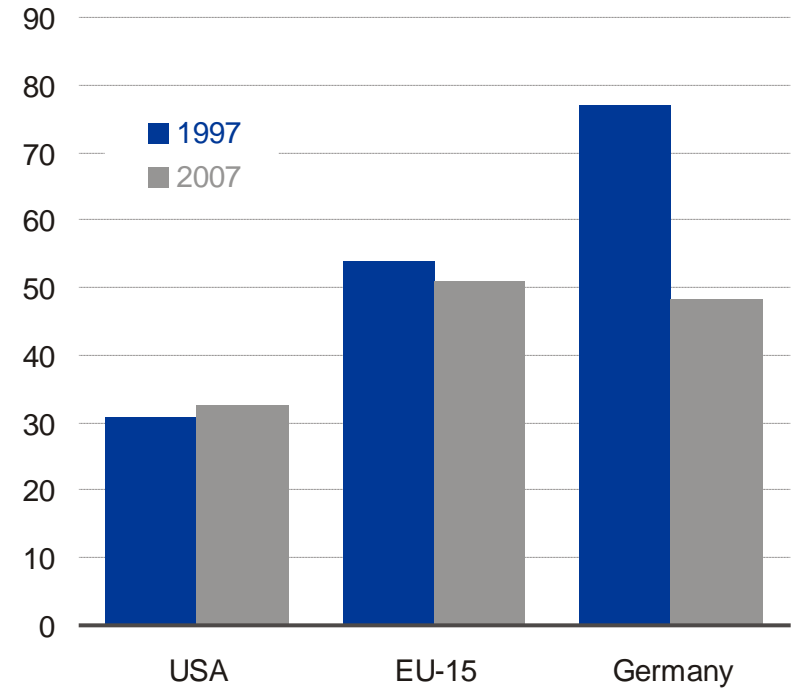
## Number of branches

in '000s



Sources: FDIC, ECB, DB Research

## Branches per 100,000 inhabitants

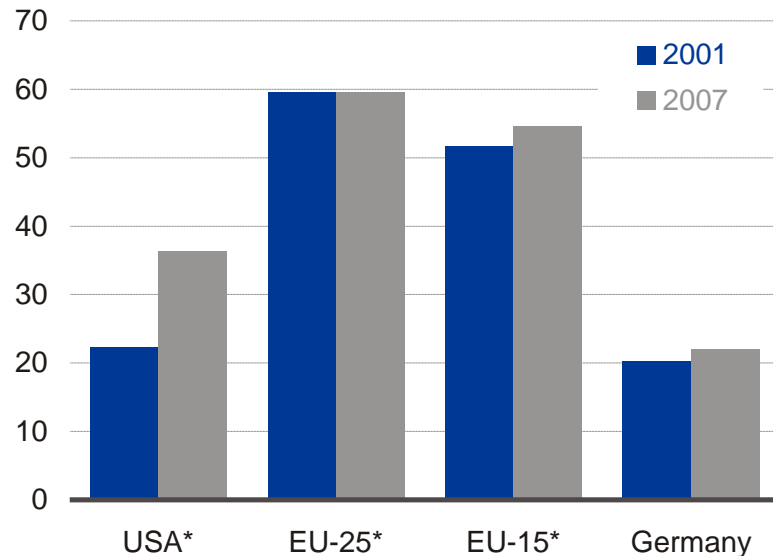


Sources: FDIC, ECB, Census Bureau, DB Research



# Large banks become more dominant – but not in regional markets in the US

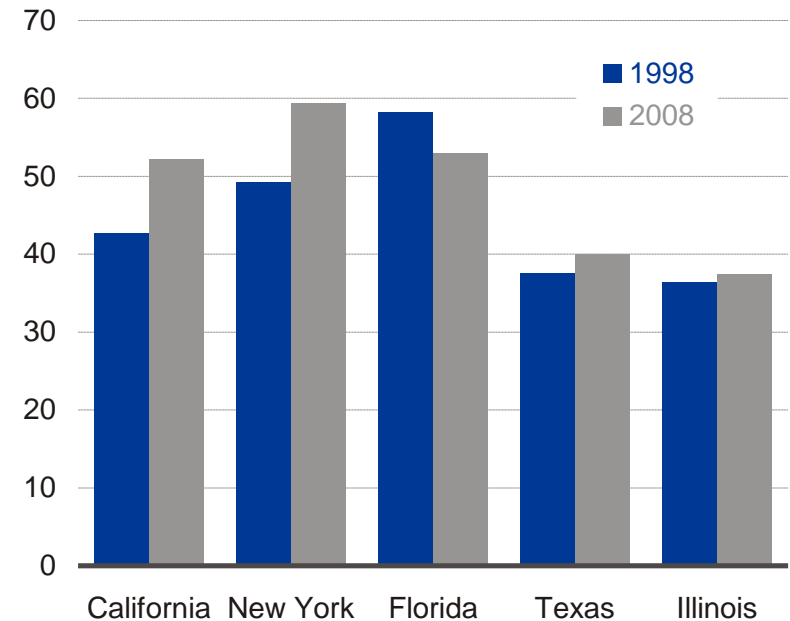
## CR-5 (concentration) ratio % of total assets



\*USA: as of June 30, 2008 and incl. JPMorgan-WaMu and Wells Fargo-Wachovia transaction; EU: unweighted average

Sources: Federal Reserve, ECB, DB Research

## % of deposits



Sources: FDIC, DB Research



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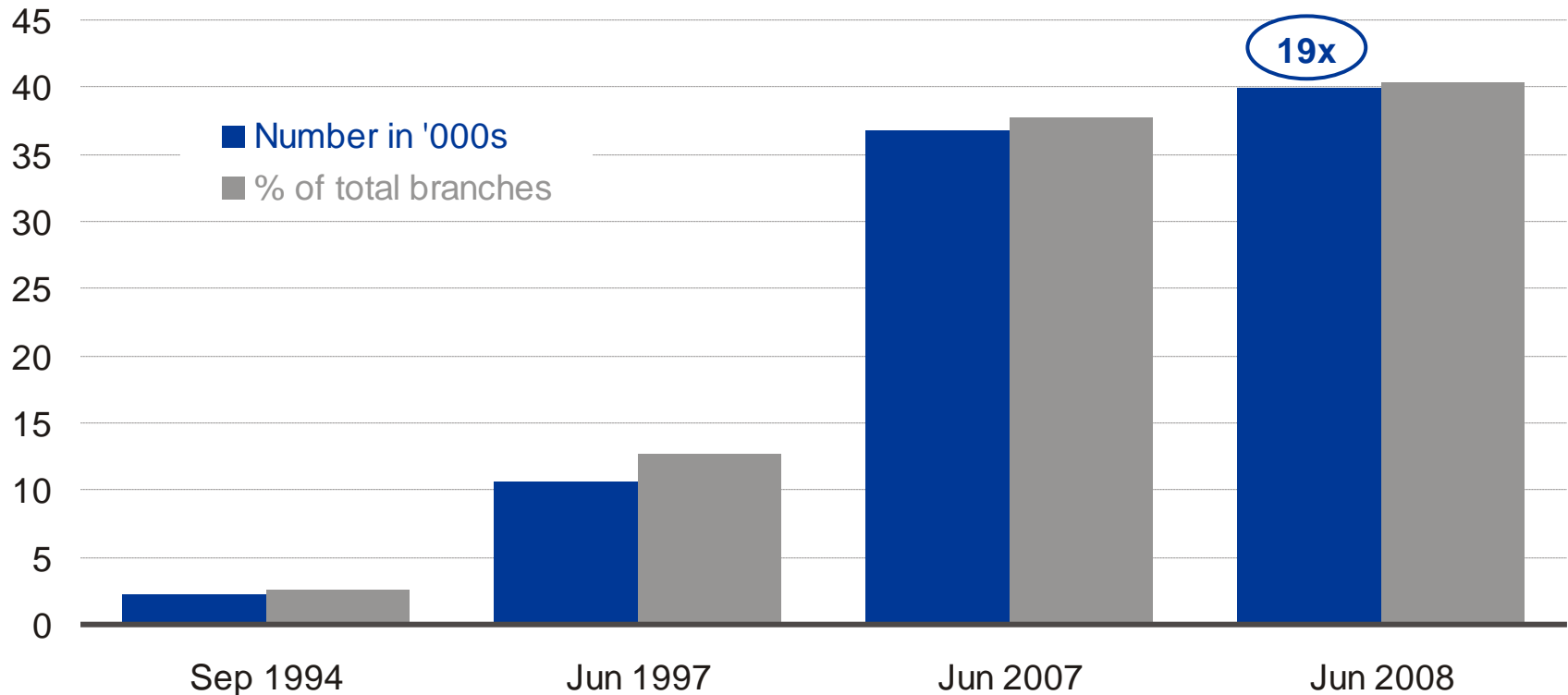
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# ...yet because of the interstate banking boom

## Interstate branches of FDIC-insured institutions



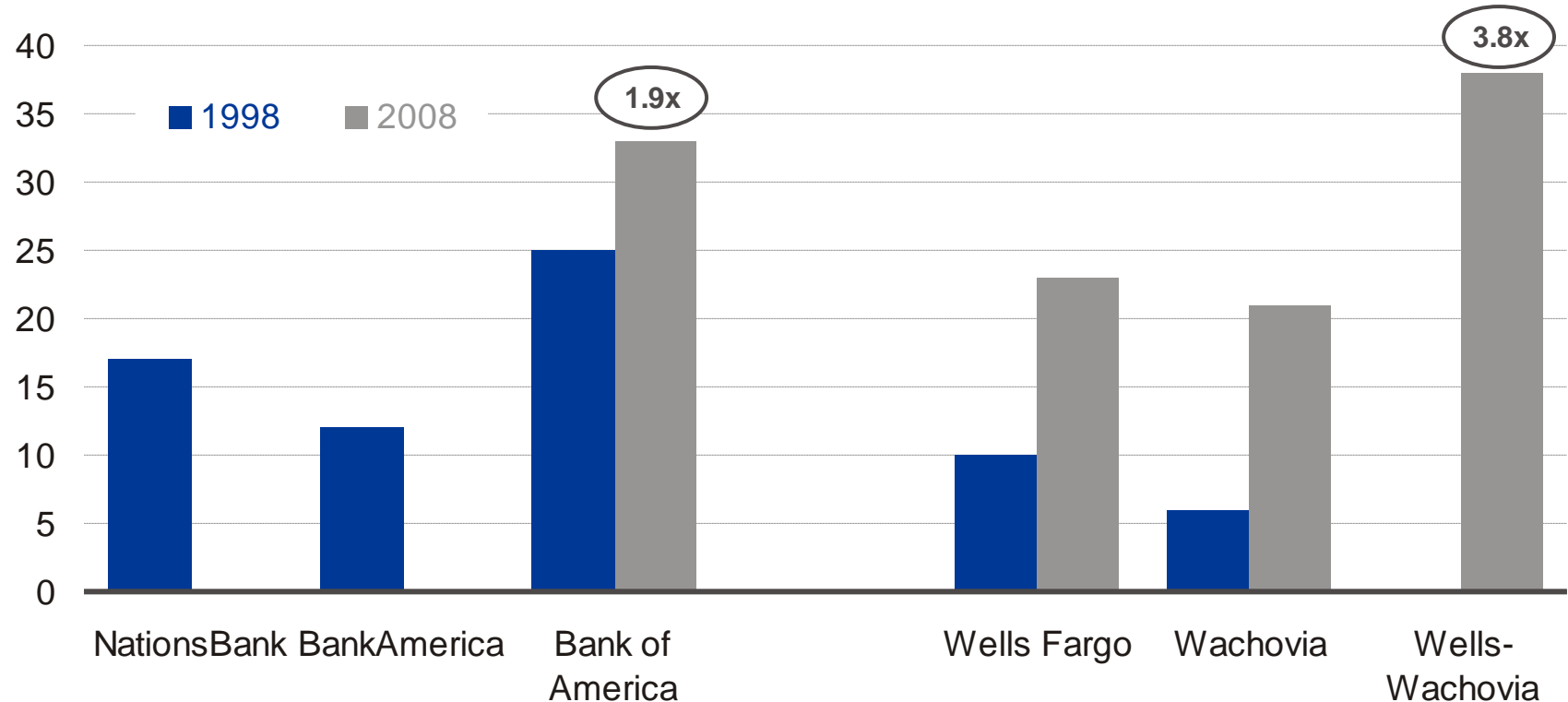
Sources: FDIC, DB Research



## ...pan-American banks emerge

### Interstate banking at Bank of America and Wells Fargo

Number of states with branches



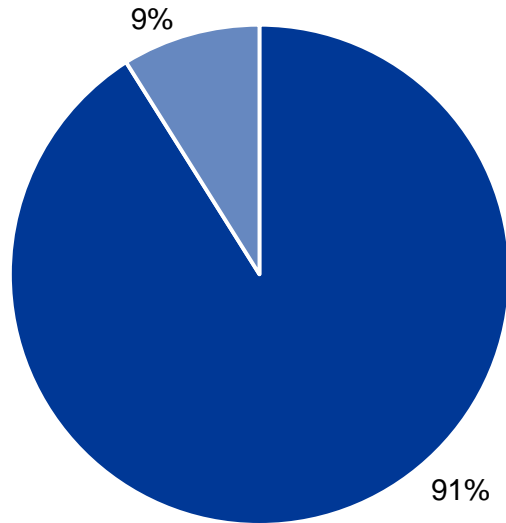
Sources: FDIC, DB Research



# ...that are domestic powerhouses but dwarfs abroad

## Assets of the 20 largest US banks by region

June 30, 2008; unweighted average



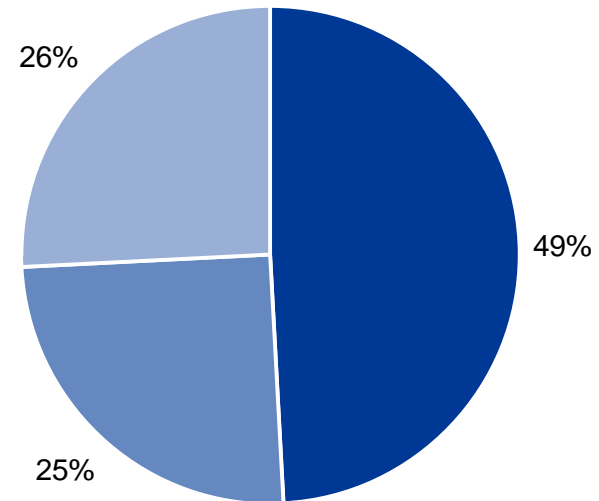
■ Domestic market ■ Foreign markets

Incl. JPMorgan-WaMu and Wells Fargo-Wachovia transaction

Sources: Federal Reserve, DB Research

## Revenues of the 20 largest European banks by region

2007, unweighted average



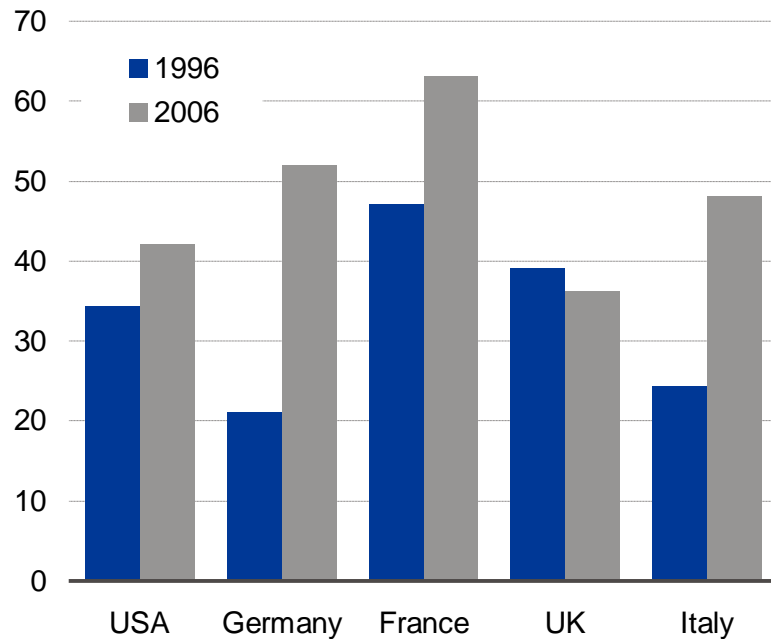
■ Domestic market ■ Other Europe ■ Rest of the world

Sources: Company reports, DB Research



## ...while banks diversify revenues as well

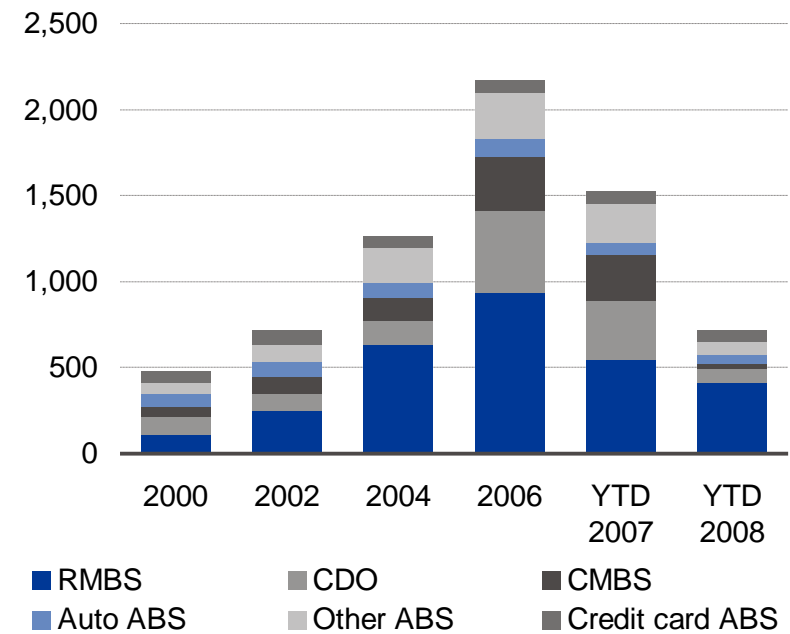
### Non-interest income in % of total revenues



Sources: FDIC, ECB, OECD, DB Research

### Global securitisation issuance

USD bn



Source: Deutsche Bank



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# New regulation to cure financial markets?

## ■ Higher capital requirements to reduce leverage:

- Putting (de)leveraging into perspective
- Off-balance sheet assets → Basel II
- Refine capital requirements superior to leverage ratio

## ■ Securitisation

- Mandatory retention not the only, not the best instrument
- Greater transparency on underlying needed
- Targeted higher capital charges worth discussing

## ■ Relaxation of mark-to-market principle:

- Resistance from investors?
- Detrimental to re-establishing trust among banks?
- Need for internationally consistent rules



## New regulation (II)

- Re-thinking the role of ratings and rating agencies:

- Improve oversight?
- Make investors pay instead of issuers?
- Reduce role of ratings in regulation

- Limits to management compensation:

- Can't owners judge best?
- Industry working on proposals to align compensation with long-term sustainable profitability

- Ban on short selling:

- Ineffective tool to stabilise markets
- Lowering financial market efficiency by impeding hedging



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## Summary & conclusion

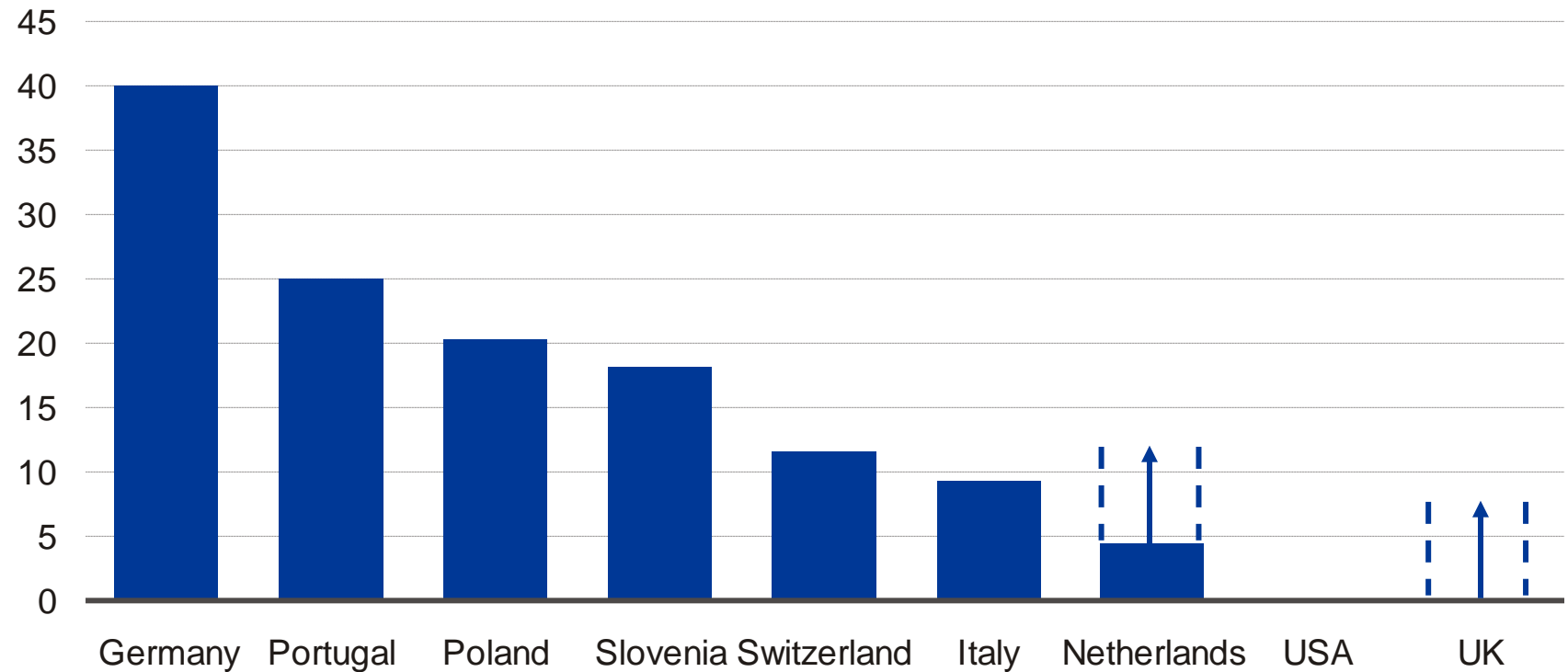
- Convergence of US and European banking markets:
  - European banks closing in with regard to profitability
  - US banks consolidating, few large players emerging
  - European banks becoming more capital markets-oriented
  - Regulation as a result of the financial crisis
- Differences to remain:
  - US banks operate national, European banks international
  - Ownership structures



# Public banking on the rise again

## Government ownership of banks (majority holdings)

%, 2005



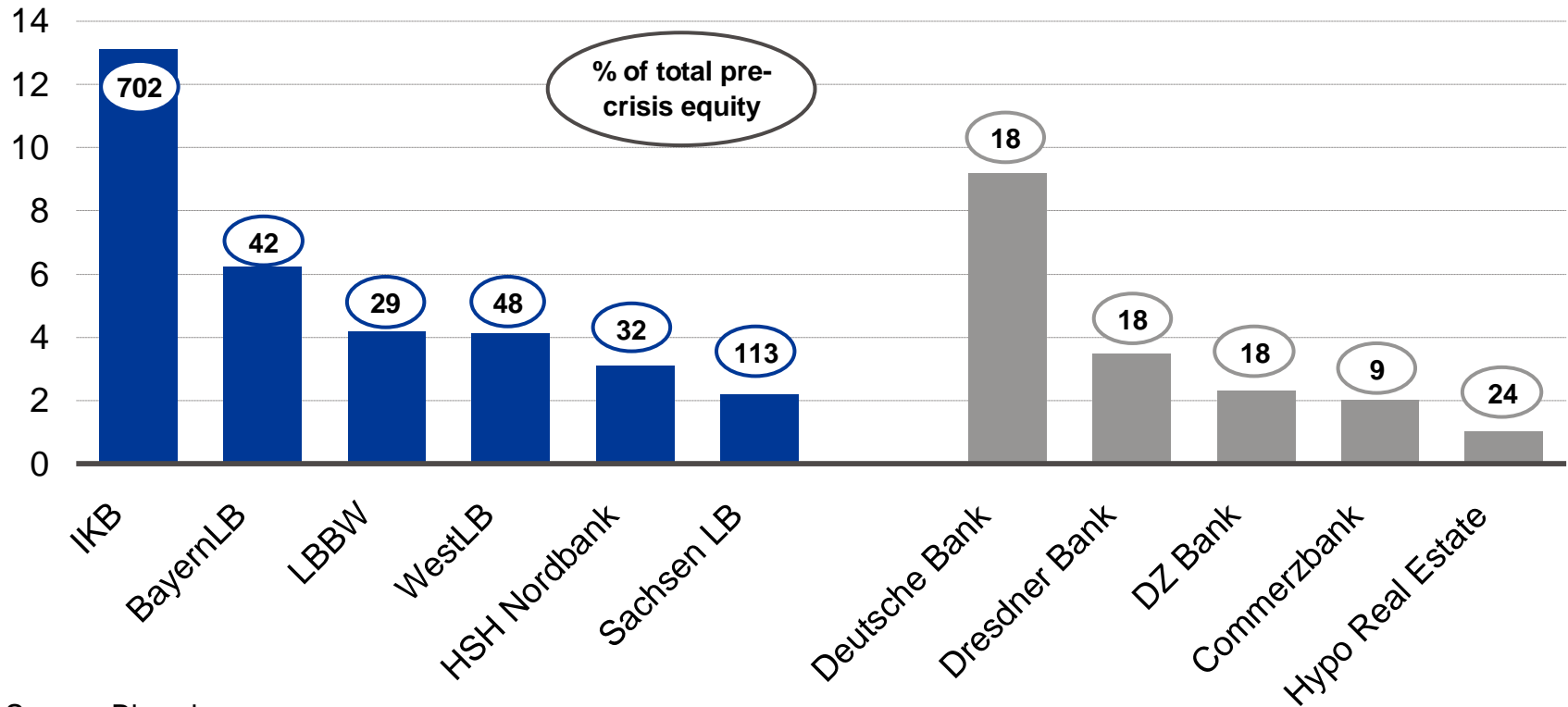
Source: World Bank



# Politicians the better bankers?

## Writedowns and credit losses at public and private German banks

USD bn



Source: Bloomberg



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