THE GROUP OF TEN

Press release

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Group of Ten Releases Report on Financial Sector Consolidation

Today the Group of Ten releases its Report on Consolidation in the Financial Sector. The report was prepared by a Working Party established in September 1999, in response to a request by the Ministers and Governors of the Group of Ten to their Deputies, chaired by Henk Brouwer, Executive Director of de Nederlandsche Bank, to study the possible effects and implications of consolidation in the financial sector.

The Working Party reviewed developments in thirteen nations, finding a high level of merger and acquisition activity among financial firms during the 1990s, particularly in the last three years, and a decrease in the number of banking organizations in almost every nation studied. Key forces promoting consolidation include improvements in information technology, financial deregulation, globalization and increased shareholder pressure for financial performance. Consolidation has encouraged the creation of a significant number of large and, in some cases increasingly complex, financial institutions. The Working Party found that while consolidation has the potential to improve operating efficiency in merged institutions and has done so in some cases, the overall evidence in favour of efficiency gains is weak. Consolidation's effects on competition and credit flows were found to be case specific and dependent on the nature of markets for individual products and services.

The study found that financial consolidation has not significantly affected either the conduct or the effectiveness of monetary policy but suggests that central bankers should remain alert to developments that might imply reductions in the competitiveness of the markets most important for monetary policy implementation.

The study indicates that existing policies appear adequate to contain individual firm and systemic risks now and in the intermediate term. Going forward, consolidation may increase the challenges of winding down a large and complex financial organization. The Working Party found that risks to individual firms and the financial system could be reduced by stepped up contingency planning and, as a result, such efforts are already underway. In addition, crisis prevention initiatives and crisis management strategies could be improved by additional communication and cooperation among official parties.

The report indicates that while financial consolidation has resulted in greater concentration of payment and settlement flows among fewer parties, it does not appear that competition in those markets has decreased. However, consolidation in payments and settlement systems has resulted in increasing linkages between central bank oversight of interbank payment systems and safety and soundness supervision, which implies that increasing cooperation and communication between banking and payment systems supervisors may be necessary both domestically and internationally.

The report is based on empirical and analytical work including consultations with a number of private and public-sector participants. The Working Party was chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve System. The study is the product of close collaboration among the representatives of ministries of finance and central banks of the G-10 countries and Australia and Spain, with valuable contributions from representatives of the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund and the Organization for Economic Cooperation and Development. The Report is available on the websites of the BIS (www.bis.org), the IMF (www.imf.org) and the OECD (www.oecd.org).