

held by European worldwide operations. The market share held by European insurers has increased from 2 per cent to 6 per cent since 1940; during the same period, the share held by U.S. insurers has dropped from 31 per cent to 12 per cent.

1.2 European Context

a) Financial Services other than Insurance

EC banks account for 34 per cent of total international world lending, just ahead of the Japanese. The Americans, with 7 per cent, have a smaller share than the German or French banks; in recent years, American banks have been reducing their international business while the Japanese have been expanding rapidly.

As Table 7 shows, Europe has close to 40 per cent of the world's banking market, based on the number of banks included in the top 500, the amount of total assets, and the percentage of total profits. The European market is also characterized by a high degree of concentration. The 25 largest European banks (five each from France, Italy, Spain, the U.K. and the Federal Republic

of Germany account for 70 per cent of the total assets of the 2 039 European banks. The five largest banks hold almost 80 per cent of total assets in France, 75 per cent in Spain, and 60 per cent in Italy. These large institutions occupy a strong position in their domestic markets and are well positioned in the other European countries.

At the same time, banks are only part of a financial sector that also includes savings institutions, mortgage finance companies and a variety of specialized institutions. Banks represent 85 per cent of the financial system in the U.K., but only 55 per cent in France and 45 per cent in the Federal Republic of Germany. The non-bank financial sector is structured quite like the banking sector, with a few large institutions dominant in their fields. This means that traditional banking services, securities trading, mortgages, mutual funds and life insurance are distributed through very dense retail networks. The 6 600 bank branches in the Federal Republic of Germany are only a fraction of the 44 000 financial offices covering this country. In Spain, bank branches represent almost half of the 33 000 financial outlets. The U.K., on the other hand, has almost twice as many bank branches as other financial services retail offices (Table 8).

TABLE 7

World Banking Markets, 1986
(US\$ billions)

	<u>Banks in Top 500</u>	<u>Pct. of Top 500*</u>	<u>Total Assets (US\$)</u>	<u>Pct. of Top 500</u>	<u>Total Profit (US\$)</u>	<u>Pct. of Top 500</u>	<u>ROA (%)</u>	<u>ROE (%)</u>
Europe	203	40.6	4 047	39.3	26.9	40.6	0.69	17.6
Asia	126	25.2	3 345	32.5	15.0	22.7	0.47	17.4
U.S.	110	22.0	2 187	21.2	17.4	26.3	0.80	26.0
Other	61	12.2	717	7.0	6.9	10.4	1.08	10.0
Total	500	100.0	10 296	100.0	66.2	100.0		

Sources: Salomon Brothers Inc. and *The Banker*.

ROA: Return on assets. ROE: Return on equity.

* Ranked by assets by *The Banker*.