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# Role and position of banks in the European economic area

**Introduction**

European banking is certainly one of the most advanced in Europe. Above all, this project is focused on the banking processes in European Union and it consists of five parts.

Namely, in the first part of this project I focused on the privatization processes in banking, firstly, these are motives and models of buy-sell banks, which were common in the very beginning of banking till this very day.

The second part of this project shows how the banking systems, in certain European countries and in some non-European ones, are maintained and some of them being extremely essential in this field, like, for instance, Switzerland and Russia are.

The third part relates to the specific forms of banking management, which are pretty common in modern banking, and they refer to OFF-SHORE, ie Islamic and underground banking.

The fourth part represents the influence of institutional investors on the competitive position of banks in contemporary economies and the last fifth part illustrates the position of Europe in the current financial world crisis.

The aim of this project is to represent the ways of organizing the banking system of European Union and the ways in which the banking systems of European Union countries are organized , what is more elaborately discussed in the coming parts.

**The privatisation processes in European Union banking**

The expansion of buy-sell banks, insurance companies, the companies which are doing business with securities and the other public-legal financial institutions, inundated Europe during 1990, simulatenously with the development and spreading of Euorpean Community .

The first boom of buy-sell banks in EU started with the crashing of Berlin Wall and strengthening of the competition amoung the very aggressive American and European financial companies, which were created by the new global intergations on the new global banking-financial market. Such a state forced the banking sector of EU to intensively spread the buying of state banks from the new – founded transitional countries outside EU. All of those buy-sell processes were founded on the 'step by step ' principle to reduce the negative consequences, but above all, to overcome the problem of loan risk and eliminate the deflation influence of the weak national economies of the transition countries. In that way, the sell-buy banking process became the leading weapon in their competitive fight with the strong and very aggressive American banks which destroyed the existence of European banks by their power, and mainly, they ruined those healthy traditional regional banks of all EU member countries, especially those in Austria, Holland, Italy and Greece.

In contrast to these leading buy-sell actions, the most significant buy-sell acts of the banks of the transit countries, were done by the branches of American banks from EU countries, or by the regional banks or invensting funds of the EU countries.

All these either volunteering or forced marriages between the institutions which manage financial activities, dramatically changed financial banking managing in this modern period, in the conditions of ever present competition, abolishing restrictive state regulations and in the continuation of research of optimal size of the organization, which deals with financial activities and which makes business with the lowest costs with the sufficient territorial business diversification of the risk of making business.

**The Motives of selling-buying banks**

The process of national and international privatisations of the banks in contemporary conditions includes the existence of a great number of the forms of buying and selling, starting from the marker and free like style to the voluntarily and forced and biletarel and multilateral forms of buying-selling. All these forms in the countries where we have a developed marker economy are united under one name and that is fusions or integrations. This unique name helps realizing the successful research all the relevant factors and motives, unavoidable in every segment of the buying-selling process. The clear knowledge of these motives and a rather selective process while consuming such indentified motives, represents a basic condition for the privatization of buying and selling, that is fusion or integration based on the business ethich principles: the mutual usage, mutual trust, good intentions, objective prices, legalization of antagonistic interests of a buyer and seller and the like.

The systematization of these motives is diferednt, both in practice and in theory, however the systematization of the motives is mostly used, from the projects of the latest privatisational buying and selling processes. Therefore, the fundamental motives of each of these forms of buying and selling, following this systematization, would be:

1) The possibility of the profit realization it represents a recent increase of the buyng-selling process in banking and in the sector of the financial industry reflects the expectations of the share holders that the possibility of the profit realization will grow, once those processes are put to an end. Supposing that the corporation which makes the buying or merging has a more aggressive management than the one which is supposed to be sold or which is planning the merging process, the incomes and earnings can boost in the condition of the greater market usage with a better offer of the more recent financial products and services.

2) The risk reduction. Alternatively, the majority of cooperative participants in the process of creation of the buying-selling process or fusion expect the reduction of all the types of commercial risks, particularly the decrease of the risk of cash flow. The reduced risk can stem from the fact that the buying and selling processes or fusions boost the overall size and reputation of a certain corporation, open new markets with the variety of economic characteristics in a comparison to those markets with which they already did business, or they are making it possible to offer their latest products and services whose cash flow has different timing when compared to the already existing flows. For instance, lately most of the European banking fusions (performed by the leading banks such as ABN AMRO and VERENIGTE SPAAR-BANK), were motivated exclusively by the complementariness of the products and services.

3) The rescue of the affected investments. The failure of the company is usually the very motive for the buyng-selling processes that is fusion. For instance, the majority of banking fusions were backed up by the Federal Corporation for the Insurance of deposits and other banking and saving monitoring agencies intending to protect themselves from the modest reserve means for the insurance of federal deposits and to try to avoid general bankruptcies and saving-deposit stampedes. One of the most significant examples of the buying-selling process stemmed from that motive, was the merging of FIRST CITY BANCORPORATION OF TEXAS bank in 1993 by CHEMICAL BANK OF NEW YORK .

4) The motives for the tax and market positioning. The predicted tax advantage was the cause of the creation of many fusions, especially in the situation when the business loss of the merged company could be listed off on the burden of the tax free company, which performed the merging process.

5) The motives of the cost reduction and greater business efficiency. The reduction of the number of employees, along with the elimination of the doubled capacity, were crucial motives for one of the greatest fusions in the financial banking sector. For instance, in April 1992, BANK OF AMERICA bought "Security

Pacific" company in order to create, at that time, the second greatest banking company in the US. After the fusion process, nearly 500 branches were predicted to be closed with the expected saving in costs, and the final figure was over billion dollars.

Buying – selling or fusion as the way of decreasing the competition. There is one more explanation to thousands and thousands latest fusions, and that is the reason for their creation, having for its goal to reduce the level of the competiion on the market. When the two rivalries are allowed to be fused, the services in their business result in the less obvious competition. The quality of services can be affected, while their prices and incomes can increase. At least, in that way the fusion is created, and along with that there is the growth of the concentration of the financial-banking offer on the national and international leve. For example, 100 greatest American banks in 1980 had in their possession about 47% values of the stocks in the total of banking industry, and in 1998 that sum was 71%. In EU banking it is much less evident that the overall concentration on the local market is present, from the concentration achieved by the buying of the banks outside EU and on the international market.

The level of the concentration on one market as the basic indicator of the justification of the banking buying-selling process that is fusion, can be measured by the proportion of asset participation or the deposit which is in the possession or which is controlled by the strongest institution doing its business on the market. For example, in case that three greatest banks control more than 2/3 of the market asset or deposit, probably it would lead to the occurrence of anti-competitive acts (including and the "arranged" arrangements) which cause damage to the public and national economy in the forms of too high prices and bad qualiy of the service.

By the creation of EU, all the necessary preconditions for the objective and market monitoring were formed , including the control of each particular purchase in or outside EU . European panel, as the executive body, with the headquarters in Brussels, stands out as the major arbitry of the merging process in the Eurpean part of the world. In the frames of its authorization, this panel executes demanding analysis ofall the banking buyng-selling acts, and it is performing all that to prevent that the possibility of the proposed buying combination leads to the "collective domination" on the certain market.

The doctrine of the "collective domination" indicates the fact that if European market, by this buying, becomes that concentrated so that 3 or 4 banks dominate then and in that case, European panel can block every further concentration , even in the case that non – European banks are included. Although till this period the banking business in Europe has not reached such a high level of concentration, as it the case with the other business areas, it is evident the strong tendency towards the consolidation of financial business has started, which can result in significant regulatory changes. Predicting this possibility, European and non-European financial companies search for the potential candidates for buying and merging in banking before the "sharpness of the regulation" of European directives become a significant factor on the market of EU.

**The Buying –selling Banking Models**

The contemporary buying-selling processes in industrial banking, which have a great number of their forms and names (buying off, connection, merging, overtaking, etc), are integrated in one authentic, both in science and practice, name and that is "banking interest fusions or mergings).

During the process of buying and selling, in practice, this determiner comprises:

a) ACQUISITION which represents the buying and selling process of all forms and modulations.

b) TAKE OVER which indicates all the types of friendly and unfriendly overtakings, just as determiners.

c) MERGER which shows all the forms of connection, but above all, the connection of the equal partners.

These buying and selling processes have a number of aims including: privatisation, demonopoly, transparency, internationalization and globalization. These are crucial. Nonetheless, not considering the names and motives, every buying and selling process represent, basically, the complex market transaction which results in the buying of one bank by the one or more banks. The purchased bank or some other financial corporation, in other words the purchased company, in order to realize its own interest, denounces its own status and most frequently, its own name and accepts its new status and its new name.

The asset and liability of the purchased company is added to the company which is making the purchase. The fusion process is normally realized after the deal conclusion of the management . The proposed transaction must be rectified by the executive board of every company, and usually it is necessary to reach the decision of the share holders of every company.

While making a decision whether to make a purchase or not, the management and board of the directors of the company which is making the purchase, usually consider the numerous characteristics of the company which is for selling. These characteristics of the company which is for selling are normally systematized in six congruent detailed – project like units :

- The comparative styles of the management of the selling company
- The main clients to who the buying company offers its services
- The currently employed stuff and the benefits they enjoy
- The material-financial state of the buying company.

All the forms of banking buying-selling process, no matter what their names are, in the contemporary market conditions, in science and practice, are grouped into three basic buying-selling models and these are:

- The models of the targeted selling
- The model of the buying-selling process solely
- The model of their voucher's selling .

A) THE MODELS OF THE TARGETED BUYING –SELLING PROCESS includes the adding of the seller's property without any addition. The partners in this model simply add their assessts, liability and value of the securities of the company registered in the buying-selling process.

B) MODELS OF THE BUYING-SELLING PROCESS ITSELF includes, clean, transparent definion of what is being bought just as the content, forms and way of that buying-selling process.

C) THE MODEL OF THE VOUCHER'S BUYING-SELLING OF BANKS IS typical of and it is being used exclusively in the transition countries which focused all their massive programmes of privatisation of their national economy and banking sector on the mission of vouhcers.

**The banking system of Russia**

The Russian state bank was founded in 1880 and it was among the first central banks of that period in the charge of country. The foreign capital, especially the French, English and German, had a great influence on the functioning of the Russian private banks. While lacking the presence of the specialization of the banking managing of that period, the most essential system was the system of the universal banking. The leading bank of the banking system of SSSR since 1921, was Gosudarstveni Bank, as the central bank of SSR. During the existence of SSSR, a wealth of other certain branches were founded, such as industrial, agricultural and commercial ones. There was the Central Communal Bank, later it became ALL ALLIANCE BANKS, then it was THE BANK FOR FOREIGN AFFAIRS, which used to have its branches in London, Paris, Beirut , Singapore and Montreal. Gosbank was the central one and the only commercial bank in that period. The Russian central bank, ie The Central Bank of Russian Federation, took over the functios of Glosbank in 1991. In the end of 1995, in Russia there were over 2 000, 00 commercial banks, but mainly they were small and under the capitalization. The specialized branches were either abolished or reorganized with the monitoring participation by RCB. In Russia in 2005, there were 1409 banks, while by the end of 2006, there were 1189 banks and loan institutions with 3281 branches.

Currently, the greatest Russian banks are Sberbank and Vnesthtorgsbank and they are directly in the possession of the country or in the possession of the states companies (Gazprombank) and it is not expected that they will be privatized in the near future. The participation of the banks in the state's possession in 2005 was 34,4%, whereas the banks in the possession of foreign countries achieved the participation of 6,8%.

**Conclusion**

In the end, it can be concluded that European Union banking systems are very stable and that the member countries, just like EU itself, take a great care of their financial institutions, which are, certainly, one of the rudiments of each country respectively.

Worldwide, while managing the buy-sell process, the banking financial industry undergoes the process of changing the owner and legal forms, at which point the smaller financial institutions are bought as to create the bigger companies in the area which encompasses new countries and continents. Some of the most influential banking companies bought the broker companies, insurance companies, smaller banking enterprises and the other non-banking institutions in order to become more powerful companies which can offer highly diverse financial services.

By the creation of EU, all the preconditions for the objective and market monitoring were formed, considering the buying of each and every bank in or outside the borders of EU.

In this way, EU does not allow the apsolute domination of particular banking groups or holdings on its territory. It is worth mentioning that among the 50 currently most powerful banks in Central Europe, there are only four under the state control, including the banks of Poland and Slovenia, while the others are privatized.

It is also worth mentioning that if one analyses the list of 50 greatest banks in Central Europe, it can be concluded that the seven greatest banking groups respresent half the market, and these are Austrian Erste Bank and Raiffeisen Bank, Hungarian OTP, Italian Unicredit and Intesa, Belgian KBC and French Societe Generale.

In the end, it can be summarized that the current great economic crisis hit, above all, all the USA banks, which resulted in bankruptcies of some influential banks, however the European banks remained safe, in other words, they did not go bankrupt. On the other hand, certain European banks were negatively influenced by the crisis, such as English 'Bradford and Bingley', which was undertook by the Spanish banking giant 'Santander' and Belgian 'Fortis', which was rescued by Belgium, Holland and Louxembourg, which donated 16 billion dollars to 'Fortis' in order to save from the crisis.

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