Good morning. My thanks to each of you for attending today’s briefing, and I especially thank our host, Sir Edward George, for sponsoring this event.

Consolidation of all types of business activities has been a prominent feature of the economic landscape for at least the past decade. The financial sector has been an active participant in this development. Indeed, the last few years have witnessed an acceleration of consolidation among financial institutions. In recognition of the importance of this ongoing evolution, in September 1999 the Ministers and Governors of the Group of Ten asked their Deputies to conduct a study of the potential effects of consolidation in the financial sector. We were asked to attempt to isolate the effects of consolidation from those of the other powerful forces transforming our financial systems, and to identify key areas in which financial consolidation motivates the need for new or continued and, in some cases, accelerated policy development.

The challenging nature and complexity of the topic, and the wide range of expertise and experience within the G-10 led us to establish six task forces for studying key aspects of financial consolidation. These task forces were comprised of staff from the central banks and finance ministries of the G-10 countries plus Australia and Spain, and representatives from the BIS, the ECB, the EU, the IMF, and the OECD. The task forces analyzed the patterns and causes of financial consolidation in the eleven G-10 countries plus Australia and Spain, and the potential effects of consolidation for financial risk, for monetary policy, for efficiency, competition and credit flows, and for payment and settlement systems. For the study, task force members reviewed existing research, undertook original research, and collected massive amounts of data, including conducting carefully structured interviews with private-market participants, central bank staff, and other relevant parties.

It is my great pleasure to be here today to announce the publication of our study. And before going any further, I would like to thank, on behalf of the G-10 Ministers and Deputies and especially myself, the many people from many nations who produced this work. I cannot name all the dozens of people involved, but please allow me to thank them indirectly by publicly acknowledging a few key participants, each of whom performed in an extraordinary manner and without whom the study’s quality would have suffered greatly. Gavin Bingham of the BIS provided extensive secretariat services and frequently demonstrated his diplomatic skills. Myron Kwast of the Federal Reserve Board was my staff director, chaired a committee that drafted the Summary Report, and chaired the task force on financial risk. Age Bakker of the Netherlands Bank chaired the task force on the causes of consolidation; Alex Bowen from the Bank of England chaired the task force on monetary policy; Jean-Michel Godeffroy of the European Central Bank chaired the task force dealing with.
payment and settlement systems; Takatoshi Ito from the Japanese Ministry of Finance chaired the task force that documented the patterns of consolidation; and Fabio Panetta from the Bank of Italy chaired the task force on efficiency, competition and credit flows.

I believe that the study we are releasing today will be of considerable benefit to those of us who conducted it and to many others. It is an important demonstration that the thinking of policymakers and the public policies they determine and administer are evolving along with the financial system. The evolution of public-sector perspectives is critical to the economic health of all our nations. I also believe that it is an excellent example of one way the G-10 and other governments can work together to address change. The study has reinforced the importance of a number of ongoing domestic and international efforts, helped us refocus our efforts in some areas, and made us feel more comfortable with existing policies in some others. In addition, the study greatly improved our understanding of how consolidation is affecting and may in the future affect areas of policy concern, helped us to identify and think about the relevant issues more clearly, and should help us to better anticipate problems that may arise in the future. For all of these reasons and more, I think the study has been a huge success.

**Key Findings and Policy Implications**
When considering a study of this depth and breadth (and length), it is always potentially dangerous and even possibly misleading to try to summarize the key points in a few words. For this reason, I urge you to read at least parts 1 and 2 of the Summary Report. Despite the risks, however, in my remaining minutes I would like to highlight what are, in my judgment, the study’s key findings and policy implications.

1. First, the study documents the fact that a high level of merger and acquisition activity occurred in the 1990s among financial firms in the thirteen nations studied, including a noticeable acceleration in the last three years of the decade. Most of the consolidation has been within countries and within segments of the financial sector. Cross-border and cross-sector consolidations have been less frequent.

2. In addition, our research shows that financial consolidation has substantially decreased the number of banking firms during the 1990s in almost every nation studied, and measures of the national concentration of the banking industry have tended to rise.

3. The study concludes that financial consolidation has helped to create a significant number of large, and in some cases increasingly complex, financial institutions. These firms increasingly operate across national borders and are subject to a wide range of regulatory regimes.

4. Our work finds that the most important forces encouraging financial consolidation are improvements in information technology, financial deregulation, globalization of financial and real markets, and increased shareholder pressure for financial performance.

5. It also concludes that financial consolidation is likely to continue, but the likelihood of specific future scenarios is impossible to assess with confidence.

6. The study finds that financial consolidation has not significantly affected either the conduct or the effectiveness of monetary policy. However, our work suggests that central banks should remain alert to the implications of any future consolidation-
induced reductions in the competitiveness of the markets most important for monetary policy implementation. Similarly, central banks ought to monitor potential future changes in the transmission mechanisms for monetary policy.

7. Importantly, we also conclude that existing policies appear adequate to contain individual firm and systemic risks now and in the intermediate-term.

8. However, going forward, the study identifies a number of topics that deserve careful attention by policymakers. For example, it seems likely that if a large and complex financial institution becomes seriously distressed, consolidation and any attendant complexity may have increased the chances that the winding down of such an organization would be difficult and could be disorderly. The resulting risks to individual firms and the financial system could be reduced by stepped-up efforts in contingency planning for working out a large and complex financial institution. I would note that such efforts are, as a result of this study, already under way.

9. We suggest that both crisis prevention and crisis management could be improved by additional communication and cooperation among central banks, finance ministries, and other financial supervisors, both domestically and internationally. Indeed, the study strongly supports existing efforts in these areas. The most important ongoing sets of initiatives include proposals to improve the risk sensitivity of the international Basel Capital Accord and bank supervision, and efforts aimed at improving market discipline.

10. The study concludes that financial consolidation has led to a greater concentration of payment and settlement flows among fewer parties. At the current time, our analysis indicates that the greater concentration of payment flows does not appear to have resulted in decreased competition in markets for payment and settlement services.

11. However, our work indicates that the risk implications of consolidation in payment and settlement systems deserve close monitoring. Moreover, because of consolidation, central bank oversight of interbank payment systems is becoming more closely linked with traditional supervision of bank safety and soundness. As a result, increasing cooperation and communication between banking supervisors and payment system supervisors may be necessary both domestically and internationally.

12. With respect to the impact of consolidation on the operating efficiency of the combined financial institutions, the study concludes that although consolidation has some potential to improve operating efficiency, and has done so in some cases, the overall evidence in favor of efficiency gains is weak. Thus, we suggest that policymakers should carefully examine claims of substantial efficiency gains in proposed consolidations, especially in cases where a merger could raise significant issues of market power.

13. Last, but certainly not least, the study finds that the effects of consolidation on competition and credit flows are very case-specific and depend on the nature of markets for individual products and services. Some markets, such as those for wholesale financial services, generally evidence few problems. Others, such as those for retail products and services, sometimes experience problems from consolidation. Thus, as with a number of other issues addressed by our study, a case-by-case evaluation is required.
Conclusion
In conclusion, I again thank you for attending today’s briefing. I hope that my remarks have helped you to understand our study’s analysis and implications. Once again, I emphasize that it was truly an international effort.

My colleagues and I would be happy to respond to any questions.

Group of 10 Press Release (11 KB PDF)
Report Summary (226 MB PDF)
Full Report (3.0 MB PDF)