

# Competition and Profitability in European Financial Services

Strategic, systemic and policy issues

*Edited by*

Morten Balling, Frank Lierman and  
Andy Mullineux

Routledge International Studies in Money and Banking



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# **Competition and Profitability in European Financial Services**

Financial services firms play a key role in the European economy. The efficiency and profitability of these firms and the competition among them have an impact on allocation of savings, financing of investment, economic growth, the stability of the financial system and the transmission of monetary policy.

*Competition and Profitability in European Financial Services* is a collection of research contributions which includes evaluations of trends in the European financial services industry and examines the driving forces of efficiency, competition and profitability of financial firms and institutions in Europe. The papers have been written by leading academics and researchers in the field who specialise in strategic, systematic and policy issues related to the European financial services industry.

This edited collection will be essential reading for students and academics and will also be of interest to financial practitioners and government officials interested in acquiring a deeper understanding of this complex issue.

**Morten Balling** is Professor of Finance at the Aarhus School of Business, Denmark.

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# Abbreviations

ACH	Automated Clearing House
AIG	Accord Implementation Group
ANZ	Australia and New Zealand Banking Group Limited
ARC	Accounts Receivable Check
ATM	Automatic Teller Machine
BGC	Bankgiro Centrale
BIS	Bank for International Settlements
BR	Bank Branches
CAPM	Capital Asset Pricing Model
CARs	Cumulative Abnormal Returns
CDO	Collateralised Debt Obligation
CE	Cost Efficiency
CEE	Central and Eastern Europe
CFS	Centre for Financial Studies
C&G	Cheltenham and Gloucester
CGFS	Committee on the Global Financial System
C-I ratio	Cost-Income ratio
CPI	Consumer Price Index
CSD	Central Securities Depositories
CV	Coefficient of Variation
DEA	Data Envelopment Analysis
DFA	Distribution-Free Approach
EAD	Exposure at Default
ECB	European Central Bank
ECB-CFS	ECB-Centre for Financial Studies
ECU	European Currency Unit
EFTPOS	Electronic Funds Transfer at Point of Sale
EMU	European Monetary Union
EP	Economic Profit
EPS	Earnings Per Share
ESCB	European System of Central Banks
EUR	Euro
FA	Fixed Assets

FDH	Free Disposable Hull
FSAP	Financial Sector Assessment Programs/Financial Services Action Plan
GDP	Gross Domestic Product
GLS-RE	Generalized Least Squares Random Effects
GMM	Generalized Method of Moments
HHI	Herfindahl–Hirschman Index
HKMA	Hong Kong Market Authority
HSBC	Hong Kong and Shanghai Banking Corporation
HVB	HypoVereinsbank
ICT	Information and Communications Technology
IESE	Institute for Experimental Software Engineering
i.i.d.	Independently Identical Distribution
IMF	International Monetary Fund
ING	ING Group
INTMG	Interest Margins
IO	Industrial Organization
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
IRB	Internal Ratings Based
IT	Information Technology
LDC	Lesser Developed Countries
LGD	Loss Given Default
LMSPR	Loan Market Rate Spread
LTA	Loan-to-Asset Ratio
LTCM	Long Term Capital Management
LTV	Loan-to-Value Ratios
M&A	Mergers and Acquisitions
MADC	Mean Average Deviations for Country
MADI	Mean Average Deviations for Industry
MEW	Mortgage Equity Withdrawal
MTS	MTS (European Bond Market)
NEIO	New Empirical Industrial Organization
OBS	Off-Balance Sheet Activities
OC	Operating Costs
OECD	Organisation for Economic Co-operation and Development
OFHEO	Office of Federal Housing Enterprise Oversight
OLS	Ordinary Least Squares
PD	Probability of Default
PE	Price–Earnings ratio/Profit Efficiency
PIN	Personal Identification Number
P&L	Profit and Loss
POP	Per Person
PR	Panzar and Rosse Model
RAROC	Risk-Adjusted Return on Capital