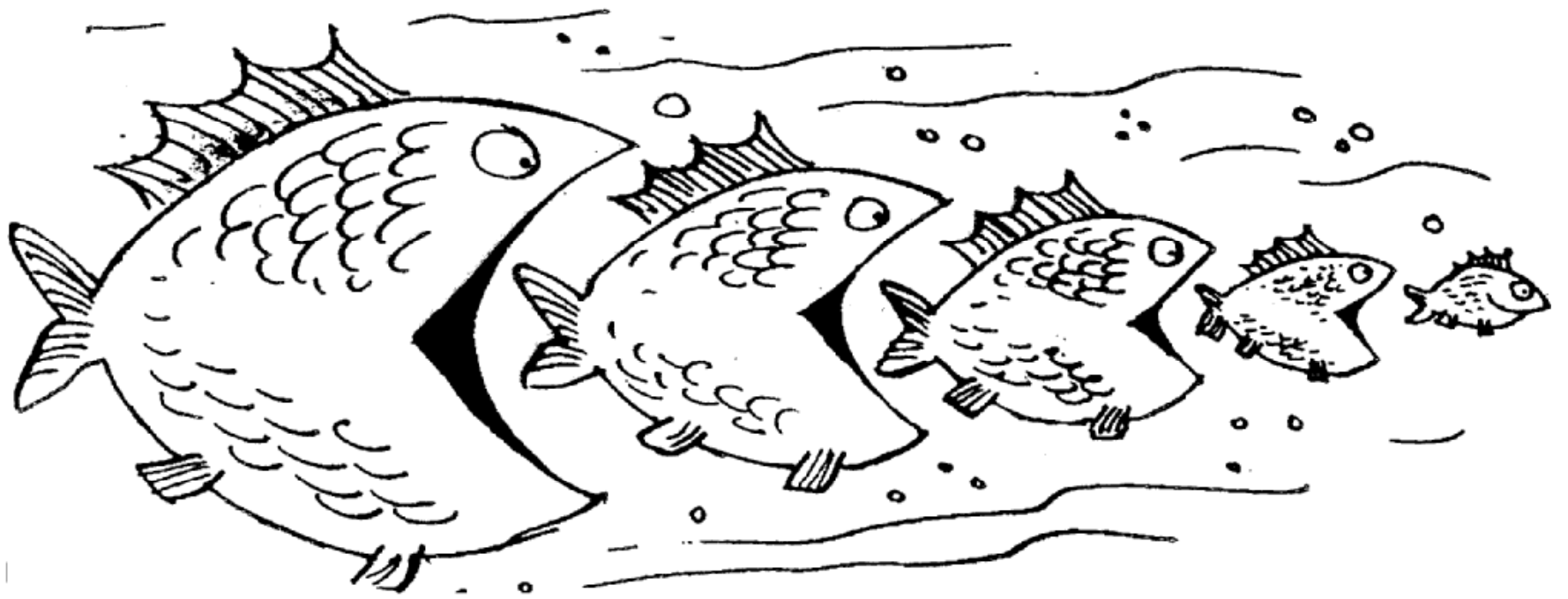
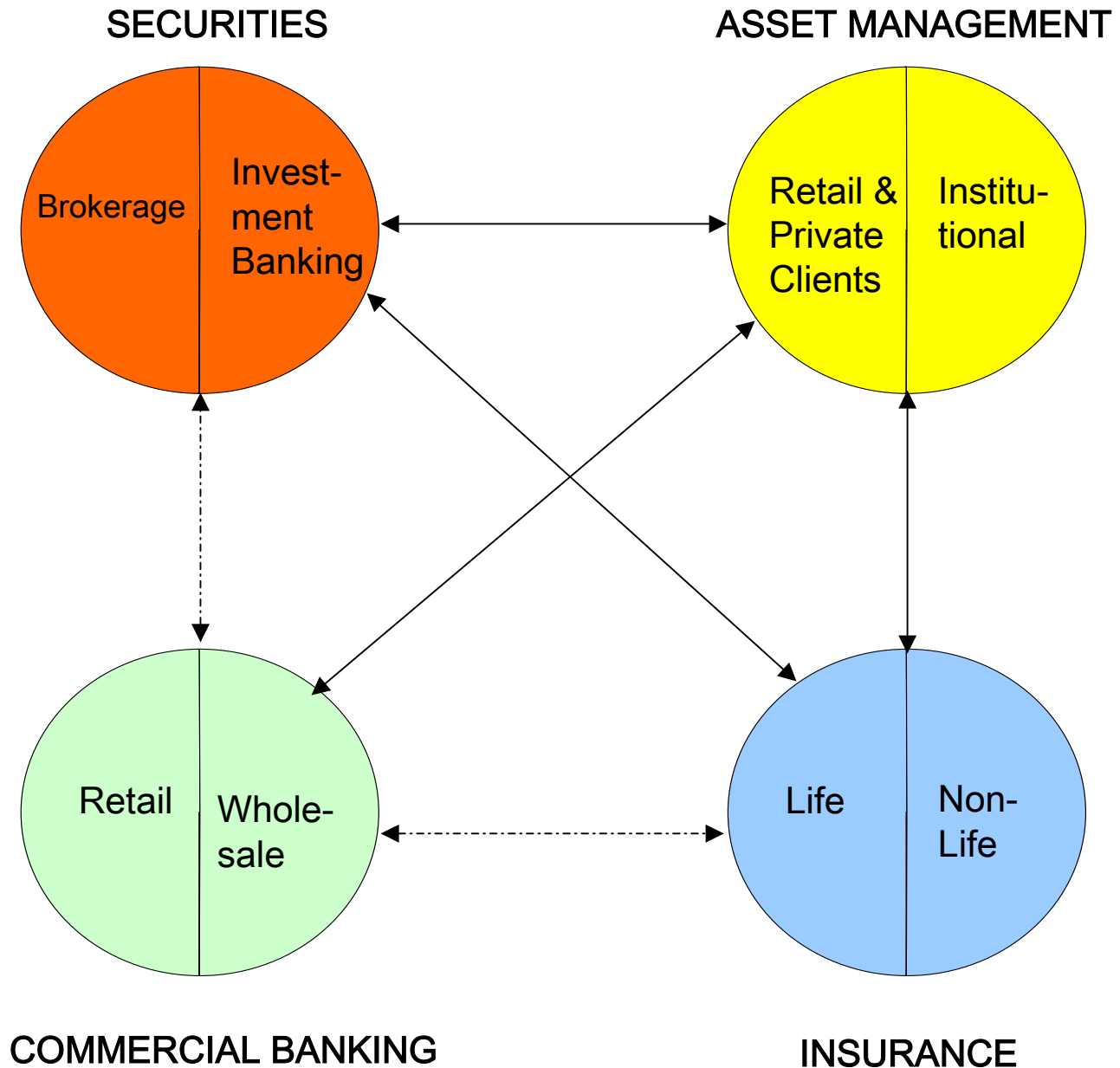


# Financial Services Reconfiguration

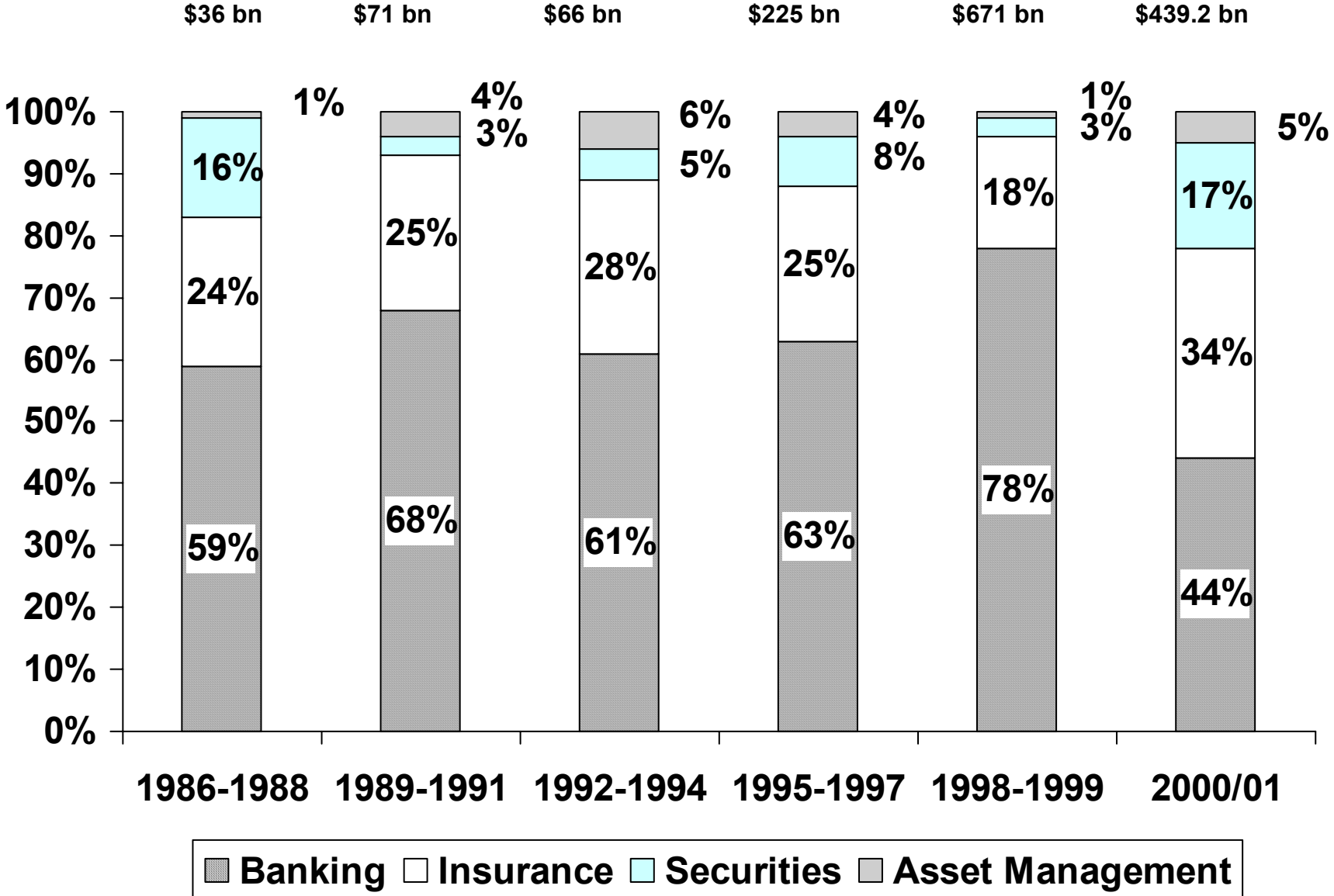
Prof. Ingo Walter



# Multifunctional Financial Linkages

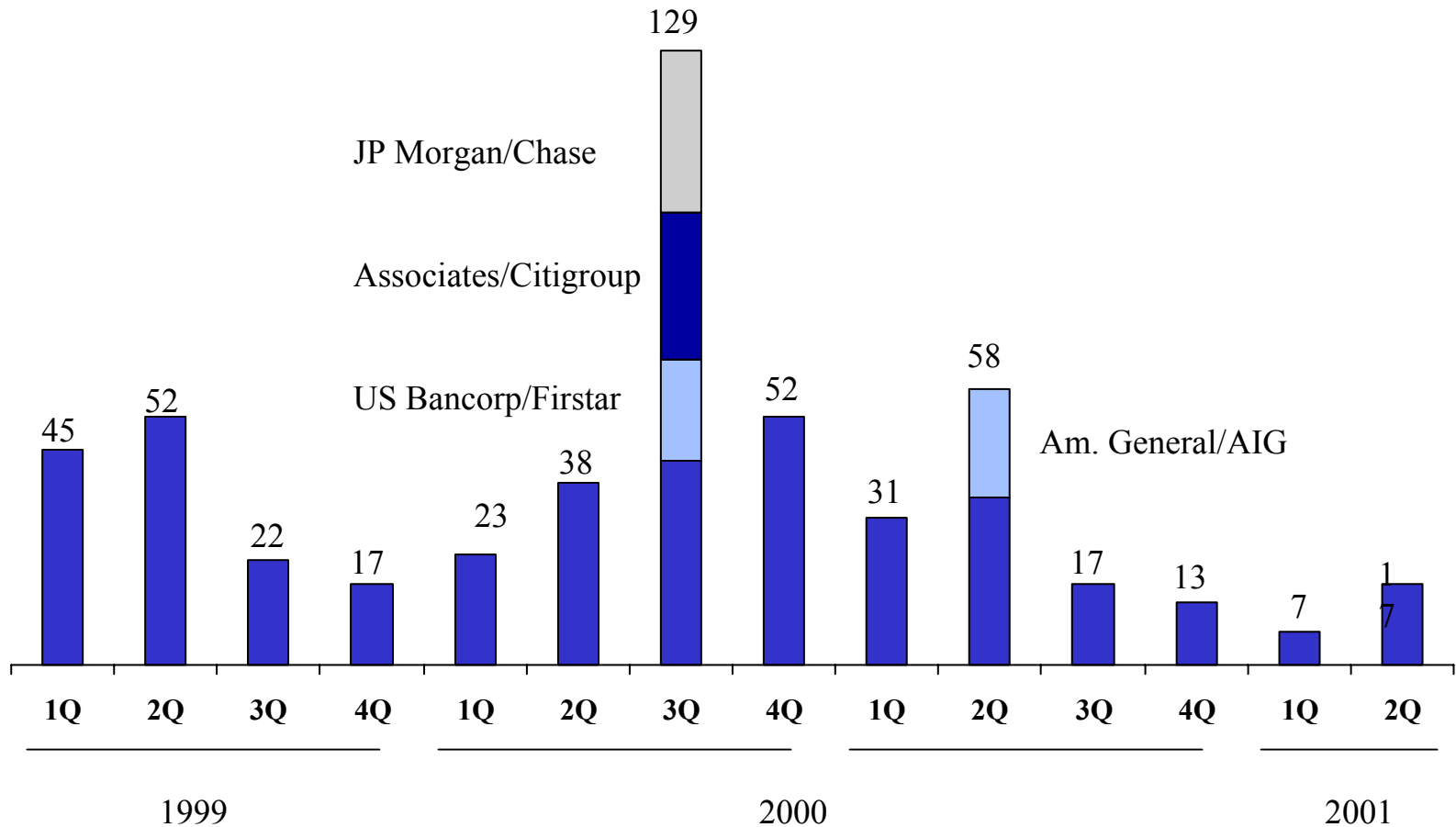


# Worldwide Financial Services Merger Volume, 1986-2001



# Financial M&A Volume, U.S. Target, 1999-2002 Q2

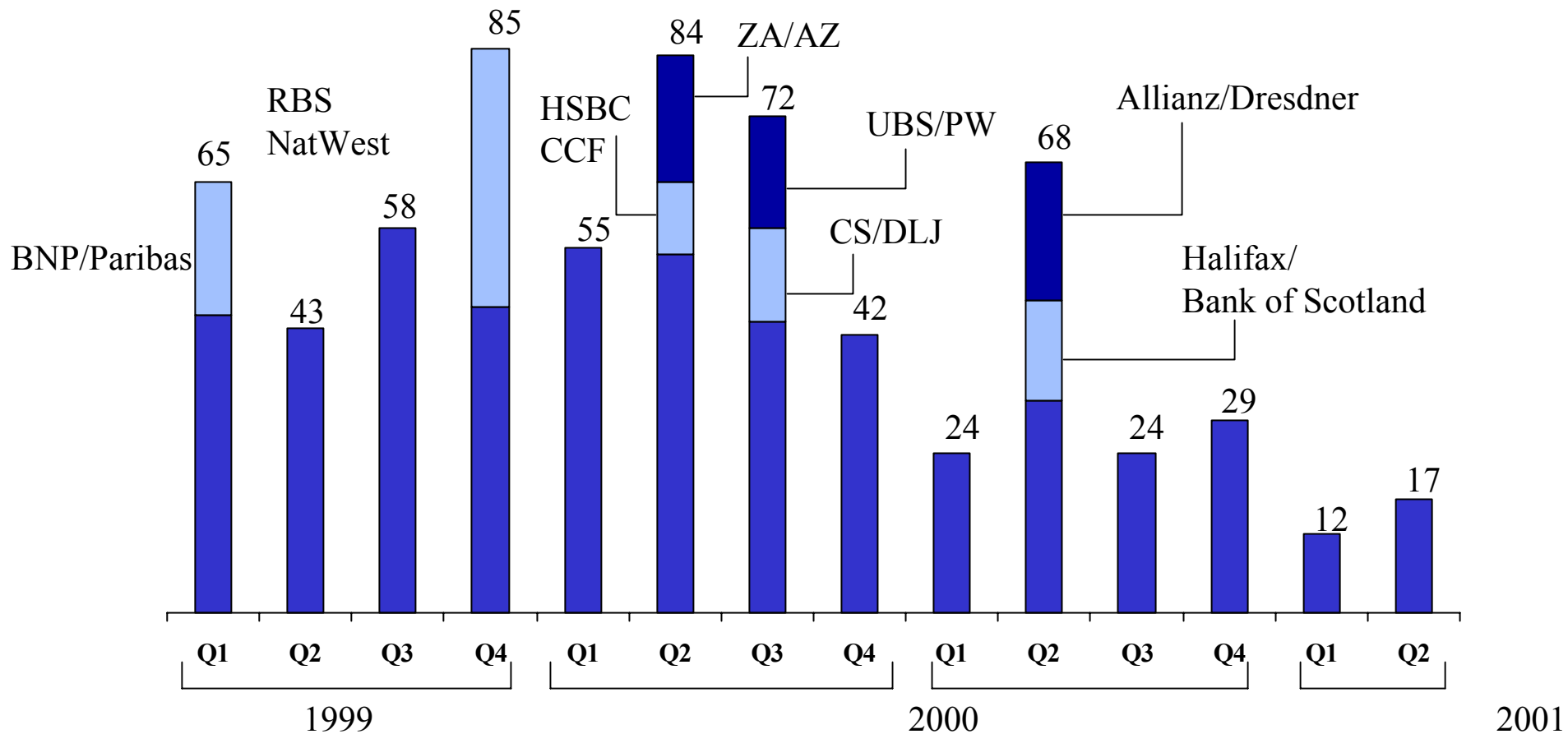
## \$ Billions



Sources: J.P. Morgan M & A Research, Thomson Financial

# Financial M&A Volume, European Involved, 1999-2002 Q2

## \$ Billions



### Number of deals:

\$10 BN +	3	2	1	2	1	2	3	0	0
\$1-10 BN	5	8	8	10	13	16	9	10	5

Source: JP Morgan M&A Research, Thomson Financial

# Sectoral Merger Intensities

Electric, Gas, and Water Distribution	6	378870.5	1268	4	304662.5	1608
<b>Insurance</b>	<b>7</b>	<b>340629.2</b>	<b>2919</b>	<b>3</b>	<b>350086.5</b>	<b>2504</b>
Investment & Commodity Firms,Dealers,Exchanges	8	335258.6	3627	11	171581.5	4600
Electronic and Electrical Equipment	9	310202.7	3085	13	113099.2	2699
Food and Kindred Products	10	303080.0	2159	8	207966.9	5103
Motion Picture Production and Distribution	11	297504.0	859	43	19995.7	641
Drugs	12	291857.7	1565	5	234442.5	1210
Measuring, Medical, Photo Equipment; Clocks	13	281102.4	3609	26	52944.3	1951
Prepackaged Software	14	245695.5	4613	34	39527.0	2788
Chemicals and Allied Products	15	227609.6	1942	9	172304.2	2508
<b>Credit Institutions</b>	<b>16</b>	<b>203138.8</b>	<b>877</b>	<b>37</b>	<b>30818.7</b>	<b>509</b>
<b>Real Estate; Mortgage Bankers and Brokers</b>	<b>17</b>	<b>188469.1</b>	<b>3829</b>	<b>6</b>	<b>208646.3</b>	<b>3562</b>
Health Services	18	184048.7	3968	48	15547.3	691
Communications Equipment	19	182094.1	1360	32	43354.1	896
Computer and Office Equipment	20	171776.2	1629	45	17887.9	706
Printing, Publishing, and Allied Services	21	166779.7	2721	15	104526.4	3643
Hotels and Casinos	22	161412.7	1490	19	84529.8	1446
Machinery	23	161392.2	2727	21	68536.6	3894
Transportation Equipment	24	152552.6	1055	18	89348.7	1938
Metal and Metal Products	25	138550.5	2732	12	118601.7	3947
Transportation and Shipping (except air)	26	130483.3	1784	16	96617.4	4082
Paper and Allied Products	27	129724.7	756	17	91237.2	1489
<b>Savings and Loans, Mutual Savings Banks</b>	<b>28</b>	<b>116649.4</b>	<b>3212</b>	<b>57</b>	<b>957.3</b>	<b>14</b>
Retail Trade-General Merchandise and Apparel	29	103291.5	715	30	45332.8	704

# Volume of In-Market Mergers & Acquisitions in the United States and Europe, 1985-2001

(millions of U.S. dollars and percent)

Acquiring Institution	Target Institution								
	World Total			U.S.			Europe		
	Banks	Securities	Insurance	Banks	Securities	Insurance	Banks	Securities	Insurance
Commercial Banks	1364 (47.6%)	120 (4.2%)	69 (2.4%)	593 (51.7%)	28 (2.4%)	0.4 (0.0%)	406 (43.3%)	35 (3.7%)	55 (5.9%)
Securities Firms	104 (3.6%)	340 (11.9%)	86 (3.0%)	13 (1.1%)	188 (16.4%)	34 (3.0%)	37 (3.9%)	65 (6.9%)	33 (3.5%)
Insurance Companies	166 (5.8%)	62 (2.2%)	555 (19.4%)	75 (6.5%)	19 (1.7%)	194 (16.9%)	70 (7.5%)	14 (1.5%)	222 (23.7%)
			78.9			85			73.9

Source: Thomson Financial Securities Data.

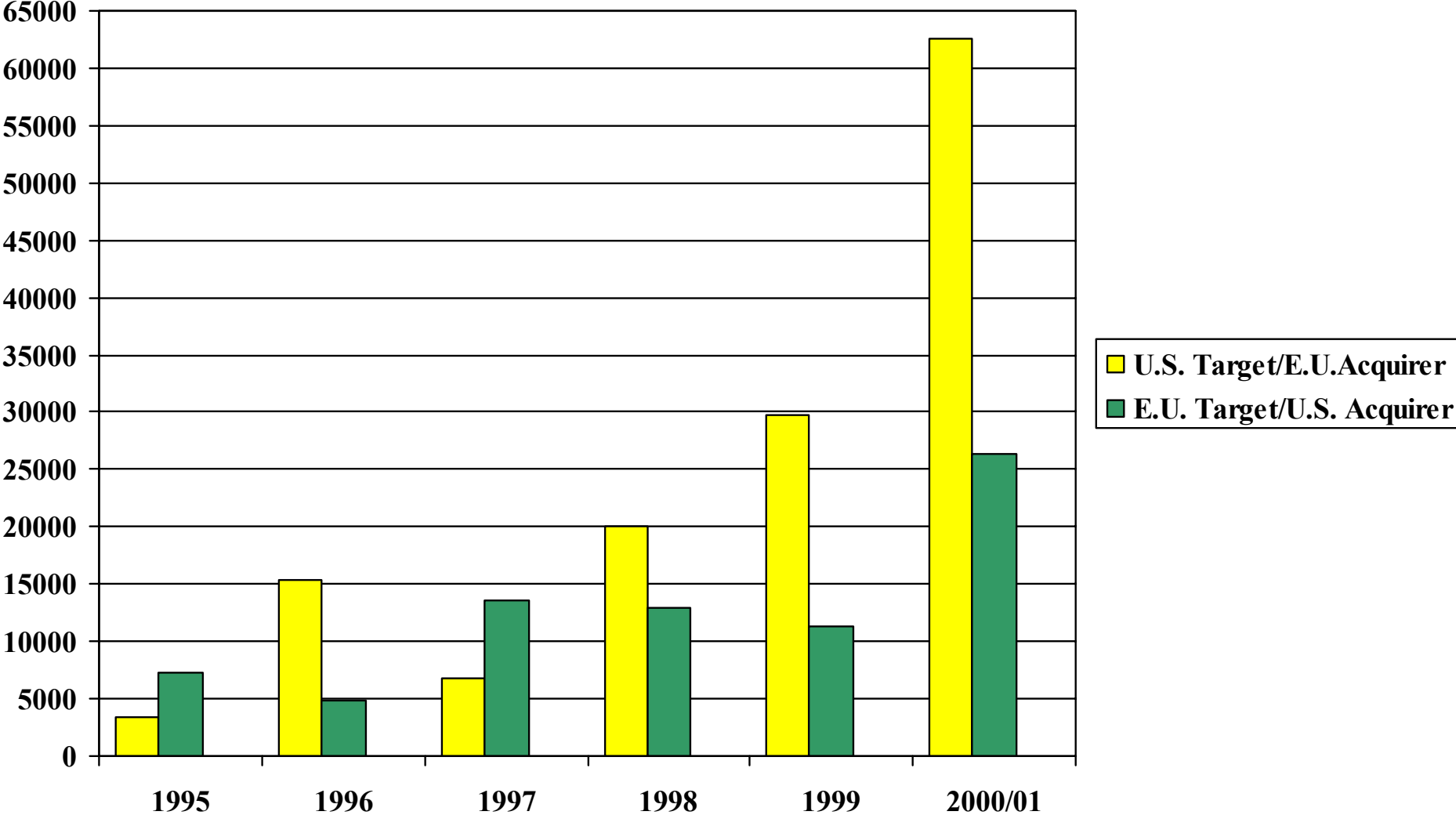
# Volume of Cross-Market Mergers & Acquisitions in the United States and Europe, 1985-2000

(billions of U.S. dollars and percent)

Acquiring Institution	Target Institution								
	World Total			U.S.-non U.S.			Intra-Europe		
	Banks	Securities	Insurance	Banks	Securities	Insurance	Banks	Securities	Insurance
Commercial Banks	136.1 (22.8)%	49.1 (8.2)%	4.9 (0.8)%	31.9 (12.7)%	38.0 (15.1)%	0.8 (0.3)%	63.5 (25.8)%	7.4 (3.0)%	2.7 (1.1)%
Securities Firms	23.4 (3.9)%	84.7 (14.2)%	18.1 (3.0)%	7.1 (2.8)%	54.3 (21.6)%	8.3 (3.3)%	9.4 (3.8)%	17.6 (7.2)%	2.9 (1.2)%
Insurance Companies	25.2 (4.2)%	27.0 (4.5)%	228.5 (38.3)%	3.1 (1.2)%	21.3 (8.5)%	86.9 (34.5)%	20.5 (8.3)%	2.9 (1.2)%	119.1 (48.4)%

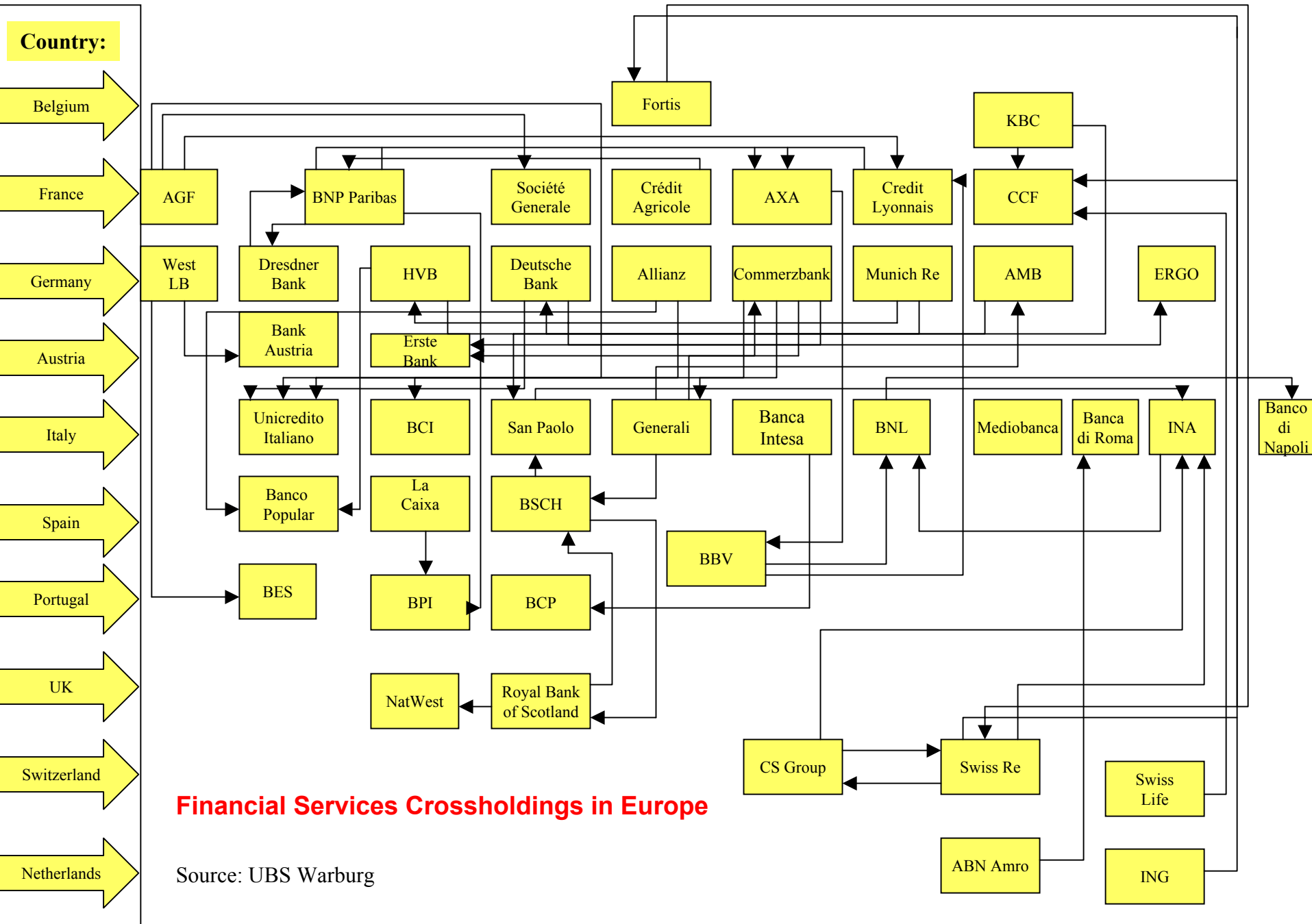
Source: DeLong, Smith and Walter [1998] and Thomson Financial Securities Data. The first figure is the dollar value (in billions) of M&A activity and the second number in parentheses is the percentage of the total (these sum to 100 for each 3x3 matrix). Figures reported are the sum of the equity values of the target insitutions.

# EU – US Cross-border M&A Financial Services Deal-flow



Source: Thomson Financial Securities Data





## The World's Largest Banks

(assets in billions of US dollars)

March 1989 <sup>3</sup>		Feb-02	
1 Dai-Ichi Kangyo	\$1,096	1 Mizuho <sup>1</sup>	\$1,178
2 Sumitomo Bank	800	2 Citigroup	1,051
3 Fuji Bank	751	3 Sumitomo-Mitsui Banking Corp <sup>2</sup>	840
4 Mitsubishi Bank	701	4 Deutsche Bank AG	809
5 Sanwa Bank	653	5 Mitsubishi Tokyo Fin. Group <sup>3</sup>	751
6 Industrial Bank of Japan	595	6 UBS	747
7 Credit Agricole	516	7 BNP Paribas	727
8 Citicorp	489	8 HSBC	696
9 Norinchukin Bank	483	9 JP Morgan Chase	694
10 Bankque Nationale de Pari	468	10 HypoVereinsbank AG	642
<b>Total Top-10</b>	<b>\$6,552</b>		<b>\$8,135</b>

<sup>1</sup>Merger of Dai-Ichi Kangyo Bank, Fuji Bank, IBJ and Yasuda Trust established as a holding company in Sept. 2000.

<sup>2</sup>Announced 14 October 1999.

<sup>3</sup>Merger of Bank of Tokyo - Mitsubishi, Mitsubishi Trust and Banking, Nippon Trust and Tokyo Trust created 20 April 2001.

<sup>4</sup>Merger of Sanwa Bank, Tokai Bank and Toyo Trust establishing a holding company on April 20, 2001.

<sup>5</sup>Increase of 33% over eleven years.

## World's Largest Life Insurance Companies - 1994

Ranking	Company	Country	Revenues (\$mil)	Type
1	Nippon Life	Japan	75,350	Mutual
2	DAI-ICHI Mutual Life	Japan	54,900	Mutual
3	Sumitomo Life	Japan	49,063	Mutual
4	State Farm Group	U.S.	38,850	Mutual
5	Prudential of America	U.S.	36,946	Mutual
6	Meiji Mutual Life	Japan	36,344	Mutual
7	Asahi Mutual Life	Japan	26,506	Mutual
8	Yasuda Mutual Life	Japan	22,664	Mutual
9	Metlife	U.S.	22,258	Mutual
10	Mitsui Mutual Life	Japan	21,739	Mutual

Source: Fortune, July 23, 2001

## World's Largest Life Insurance Companies, 2001

Ranking	Company	Country	Revenues (\$mil)	Type
1	AXA	France	92,782	Stock
2	ING Group	Netherlands	71,206	Stock
3	Nippon Life	Japan	68,055	Mutual
4	CGNU	Britain	61,499	Stock
5	Generali	Italy	53,333	Stock
6	DAI-ICHI Mutual Life	Japan	46,436	Mutual
7	Prudential	Britain	43,126	Stock
8	TIAA-CREF	U.S.	38,064	Mutual
9	Sumitomo Life	Japan	37,536	Mutual
10	Metlife	U.S.	31,947	Stock

## World's Largest Non-Life Insurance Companies, 1994

Ranking	Company	Country	Revenues (\$mil)	Type
1	Allianz	Germany	40,415	Stock
2	UAP	France	34,597	Stock
3	GAN	France	23,668	Stock
4	AXA	France	22,426	Stock
5	AIG	U.S.	22,386	Stock
6	Zurich	Switzerland	21,741	Stock
7	Generali	Italy	20,765	Stock
8	Münchener Rück	Germany	19,514	Stock
9	Fortis	Belgium/Neth.	19,306	Stock
10	Travelers	U.S.	18,465	Stock

Source: Fortune, July 23, 2001

## World's Largest Non-life Insurance Companies, 2001

Rank	Company	Country	Revenues (\$mil)	Type
1	Allianz	Germany	71,022	Stock
2	State Farm	U.S.	47,863	Mutual
3	AIG	U.S.	45,972	Stock
4	Munich Re	Germany	40,672	Stock
5	Zurich	Switzerland	37,434	Stock
6	Berkshire	U.S.	33,976	Stock
7	Allstate	U.S.	29,134	Stock
8	Royal & Sun	Britain	25,570	Stock
9	Loews	U.S.	20,670	Stock
10	Swiss Re	Switzerland	18,688	Stock

## World's 20 Largest Asset Managers, 2001

UBS AG	1,438	Merrill Lynch	557
Kampo	1,230	Capital Group	556
Deutsche Bank AG	1,079	Mellon	510
Fidelity Investments	886	Morgan Stanley	472
Crédit Suisse	837	Citigroup	464
AXA	802	Vanguard	389
Barclays Global Inv.	801	Invesco	384
State Street	724	Putnam	370
Allianz AG	641	Amvescap	333
JP Morgan Fleming	638	Northern Trust	323

Source: *Institutional Investor*, July 2001 (US data) and November 2001 (non-US data).

# Defendants in U.S. Justice Department Anti-trust Suit Against the Investment Banking Industry 1949-54

Complaint: Defendants formed in or about 1915 a system to eliminate competition and monopolize “the cream of the business” of securities underwriting and distribution in the United States

Morgan Stanley & Co.  
Kuhn Loeb & Co.  
Smith Barney & Co.  
Lehman Brothers  
Glore Forgan & Co.  
Kidder Peabody & Co.  
Goldman Sachs & Co.  
White Weld & Co.

Eastman Dillon & Co.  
Drexel & Co.  
The First Boston Corporation  
Dillon Read & Co., Inc.  
Blyth & Co., Inc.  
Harriman Ripley & Co., Inc.  
Stone & Webster & Co., Inc.  
Harris Hall & Co., Inc.  
Union Securities Corporation

Not named:

Merrill Lynch Fenner, Bean & Co.  
Salomon Brothers & Co.

# Goldman Sachs Post-IPO Ownership-Management Structure

Market capitalization (5/31/99)	\$33 billion
Former partners	48.3%
Former limited partners	8.5%
Employees	21.2%
Sumitomo & Kamehameha Activities Assoc.	9.4%
Public shareholders (controlled placement) <sup>1</sup>	12.6%

Board: Insiders plus one retired partner and one outsider.

Management: 17-person Management Committee.

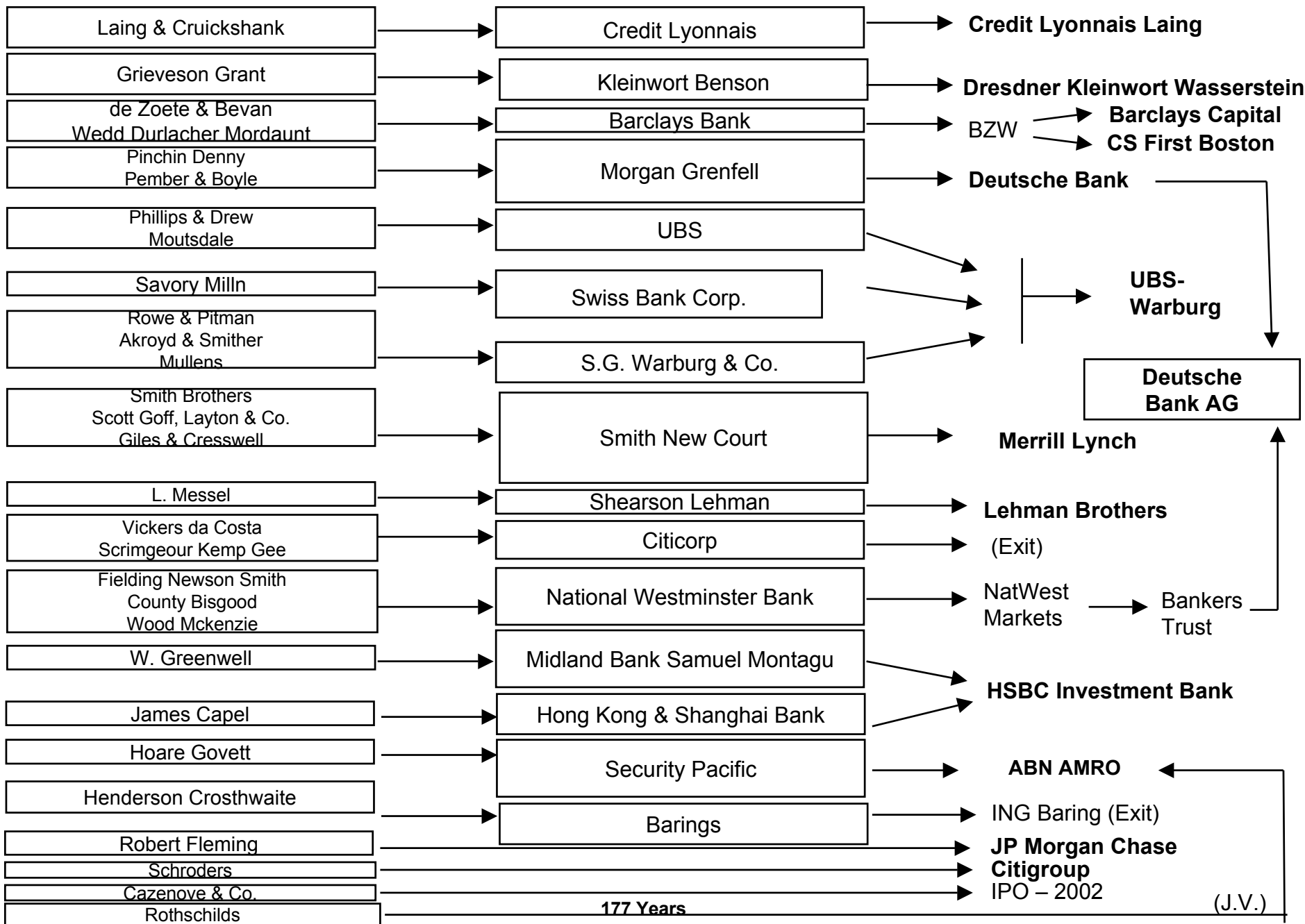
Former partners (221) become managing directors.

Quotable quote to investors: “This is our company and our stock... We’re going to let you in. Now shut up and we’ll let you know how much you made.

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<sup>1</sup>Public placement: 75% to GS institutional clients, 20% to GS HNW brokerage clients and 5% to Wit Capital and GS-On-line (its Internet-based IPO firm).

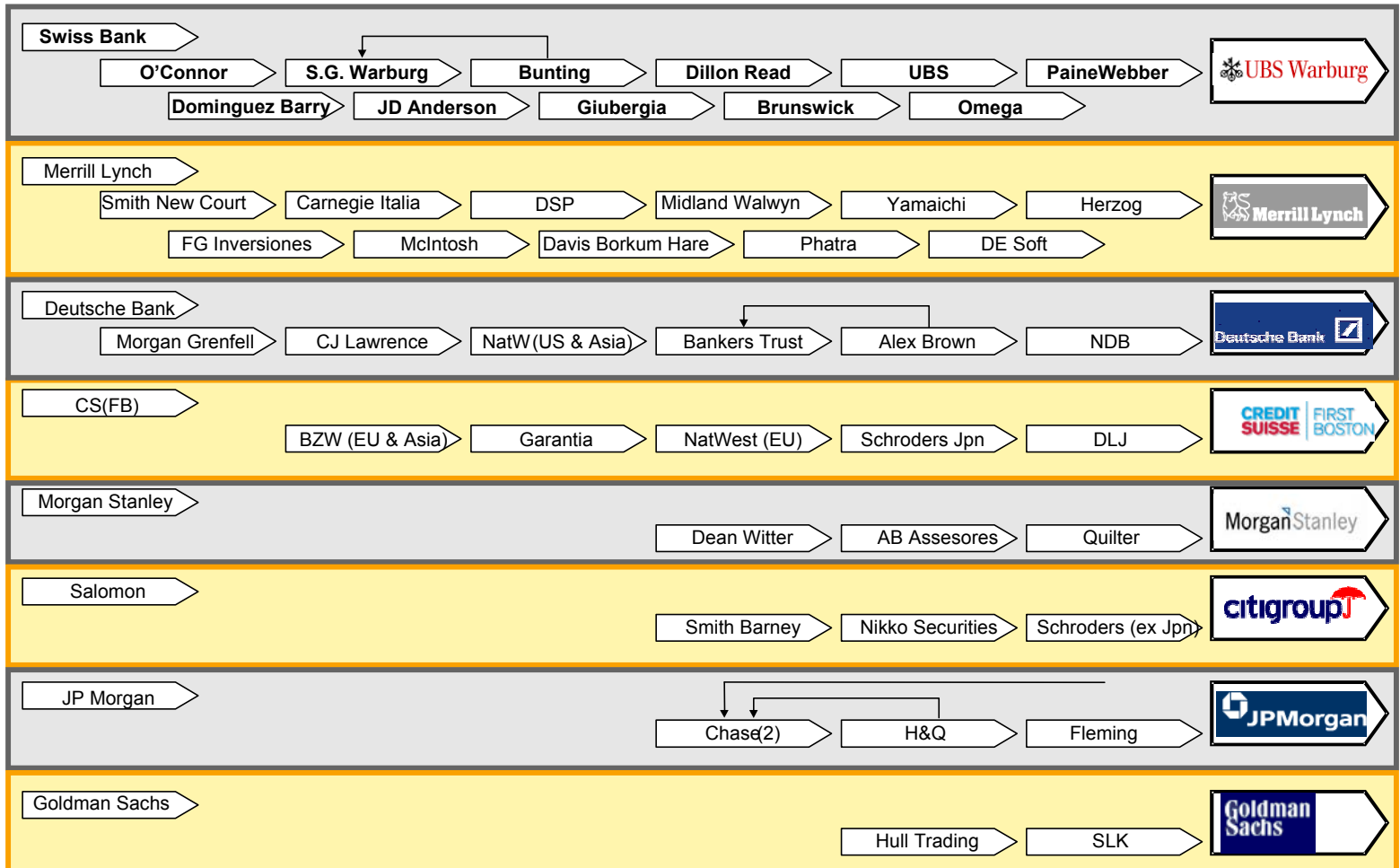
# Evolution of British Merchant Banks 1986-2001



# Global Investment Banking Consolidation

1990

2001



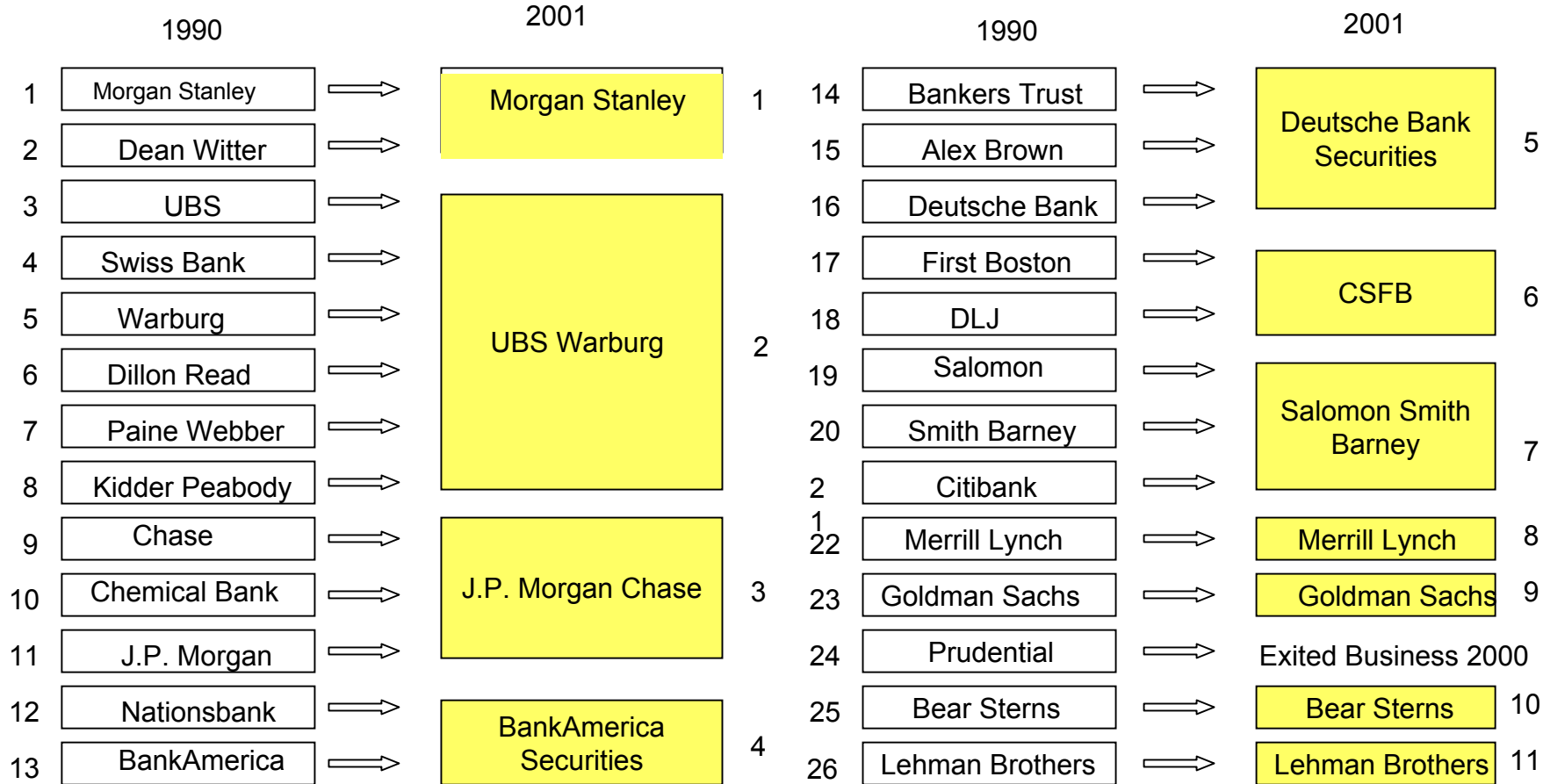
NOTES: (1) Not including insurance companies and asset management, (2) Chase includes Chemical Bank and Manufacturers Hanover

# Disappearing Investment Banks, 1986-2001

- Kuhn Loeb (1986)
- E. F. Hutton (1987)
- Morgan Grenfell (1989)
- Drexel Burnham (1990)
- Shearson Lehman American Express (1993)
- Kidder Peabody (1994)
- Baring Brothers (1995)
- Kleinwort Benson (1995)
- Alex Brown (1997)
- Dillon Read (1997)
- Hoare Govett (1997)
- Robertson Stephens (1997)
- Montgomery Securities (1997)
- Peregrine Securities (1997)
- BZW (1998)
- S.G. Warburg (1998)
- NatWest Markets (1998)
- Cowen & Co (1998)
- Yamaichi Securities (1998)
- Paribas (1998)
- Hambrecht & Quist (1998)
- Charterhouse (1999)
- Phoenix Securities (1999)
- Bankers Trust Company (1999)
- Furman Selz (1999)
- Schroders (2000)
- Robert Fleming (2000)
- PaineWebber (2000)
- JP Morgan (2000)
- Donaldson Lufkin Jenrette (2000)
- Wasserstein Perella (2000)
- Beacon (2000)
- ING Barings (2001)
- Dresdner Kleinwort Wasserstein (2001)

Name drops: Dean Witter (2001), Salomon Smith Barney (2002)

# Active Underwriters and Secondary Dealers: High-Yield Bonds



Source: JP Morgan Chase

The consolidation of many securities firms combined with the dealers' reduced willingness to take risk have drastically reduced all firms' market-making activities.

# THE 15 MOST VALUABLE FINANCIAL SERVICES BUSINESSES IN NORTH AMERICA AND EUROPE <sup>1</sup>

(market capitalization in US \$ million, July 2002)

## NORTH AMERICA

Citigroup	223.04
AIG	174.09
GECS	155.74
Bank Of America	117.09
Berkshire Hathaway	114.36
Fifth Third Bancorp	89.64
J P Morgan Chase	71.55
American Express	57.00
Wachovia	52.49
Morgan Stanley	50.00
Banc One	47.70
Wells Fargo	45.29
U.S. Bancorp	37.93
Washington Mutual	37.84
Fleet Boston	36.99

## EUROPE

HSBC	116.34
RBS Group	83.40
UBS	69.56
Lloyds TSB Group	60.25
Barclays	57.42
Allianz	54.66
ING	52.70
BNP Paribas	49.92
Deutsche	44.86
CS Group	44.14
BSCH	44.06
Munich Re	41.39
BBVA	38.55
Swiss Re	31.56
AEGON	30.56

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<sup>1</sup> Source: Business Week, July 15, 2002