

Understanding Banking as an Industry

FIN 204 Lecture 6.2.

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- 1 Brief History of Banking in US
- 2 Basic Facts on the Banking Industry in the United States
- 3 Basic Facts on the Banking Industry in the Czech Republic

A Brief History of Banking in US

- 1 1782: First bank is created; huge success; number of banks increase
- 2 Early 19th century: Banks issue their own bank notes; frauds increase
- 3 1863: National Bank Act: Reallocation of funds to banks regulated by the Federal Government rather than the State Government
- 4 1913: Federal Reserve Act creates the FED as a system
- 5 1933: Federal Deposit Insurance Corporation is created
- 6 1933: Investment in securities and banking are separated
- 7 1994: Consolidation of banks across states is allowed
- 8 1998: The first bank to have branches on both coasts

Structure of Banking in the US

Basic Facts

- ① \approx 8000 banks (2002)
- ② very high concentration

Table 1 Size Distribution of Insured Commercial Banks, September 30, 2002

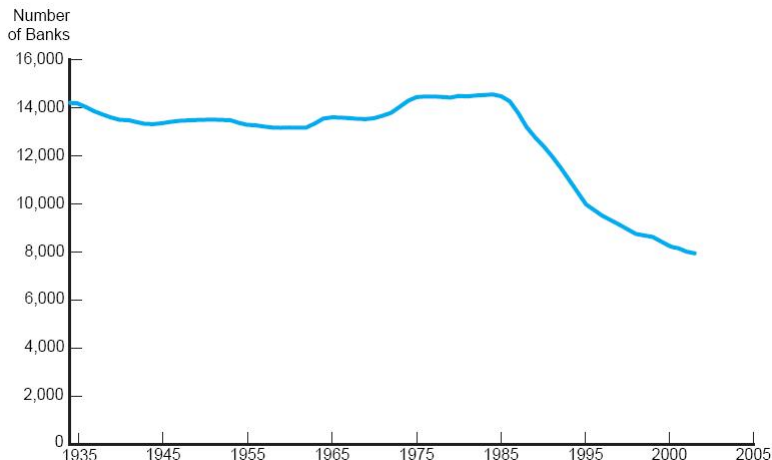
Assets	Number of Banks	Share of Banks (%)	Share of Assets Held (%)
Less than \$25 million	796	10.0	0.2
\$25–\$50 million	1,421	17.9	0.8
\$50–\$100 million	2,068	26.1	2.2
\$100–\$500 million	2,868	36.2	8.6
\$500 million–\$1 billion	381	4.8	3.7
\$1–\$10 billion	319	4.0	13.2
More than \$10 billion	80	1.0	71.3
Total	7,933	100.0	100.0

Source: www.fdic.gov/bank/statistical/statistics/0209/allstru.html.

Structure of Banking in the US

Basic Facts 2

1 consolidation trends



Why the declining trend? 2 main reasons.

Structure of Banking in the US

Reasons for Consolidation

Why the large-scale consolidation occurred?

- 1 Regulators allowed inter-state purchase of banks
- 2 Economies of scale:

Structure of Banking in the US

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- ② Economies of scale: distribute the F among larger number of loans

Advantages of Consolidation

- Inefficient banks are driven away from the market
- Diversification of portfolios

Structure of Banking in the US

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Advantages of Consolidation

- Inefficient banks are driven away from the market
- Diversification of portfolios
- ...

Disadvantages of Consolidation

- Lower competition
- Higher market risks
- ...

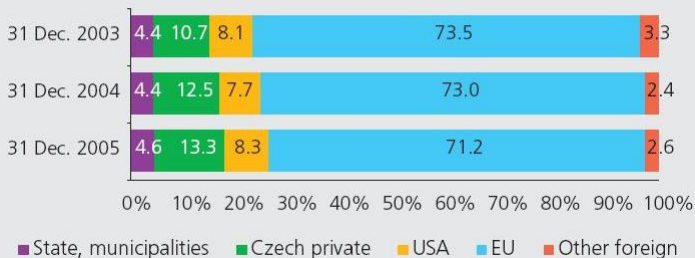
Structure of Banking in the Czech Republic

Basic Facts

- 1 36 banks (Dec. 2005)
- 2 96% of the assets are foreign-owned

BANK OWNERSHIP STRUCTURE

for banks with licences as of the given date



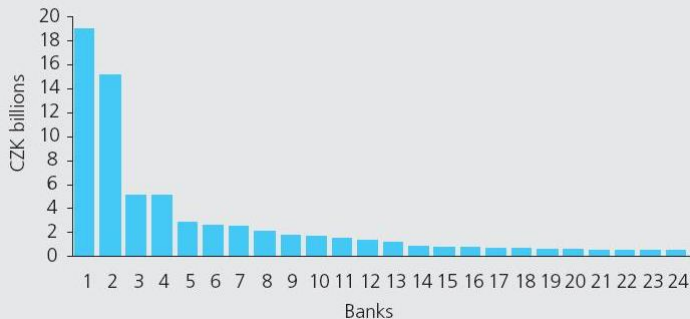
Structure of Banking in the Czech Republic

Basic Facts 2

- 1 net profit of more than €1.2 bln.
- 2 concentration is very high

EQUITY CAPITAL DISTRIBUTION OF BANKS AS OF 31 DECEMBER 2005

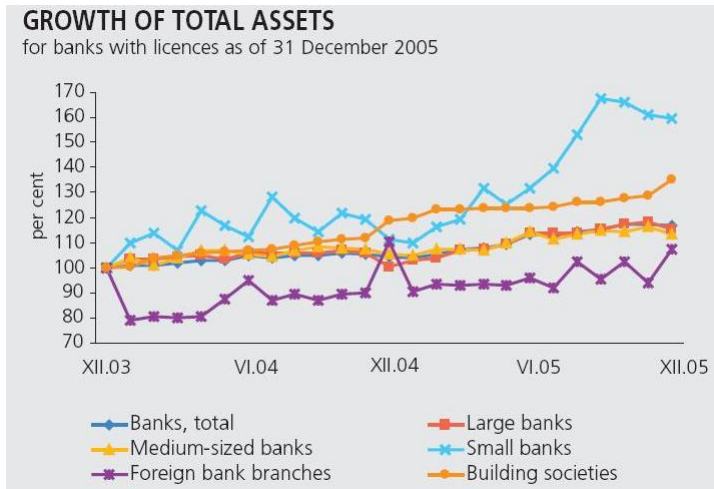
for banks with licences as of 31 December 2005



Structure of Banking in the Czech Republic

Basic Facts 3

① Assets are steadily growing



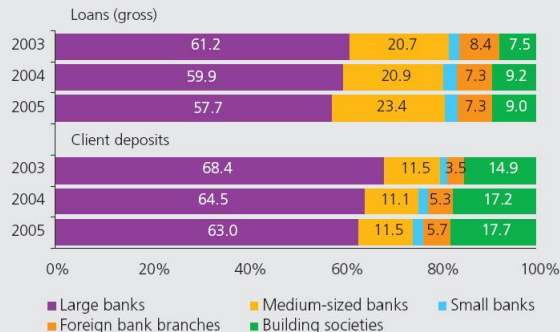
Structure of Banking in the Czech Republic

Basic Facts 4

1 Competition is far from fierce

MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS IN PER CENT

for banks with licences as of 31 December 2005

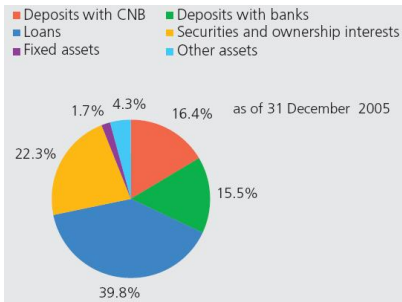
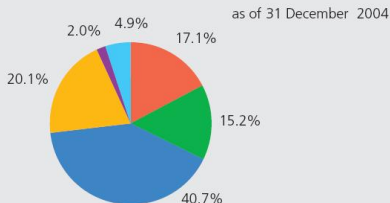


Banking Industry in the Czech Republic

Asset structure - 2004 and 2005

ASSETS STRUCTURE

for banks with licences as of 31 December 2005

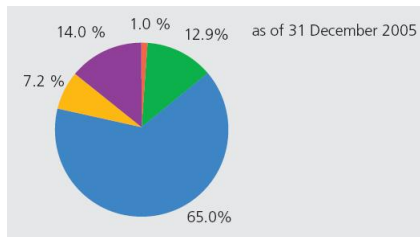
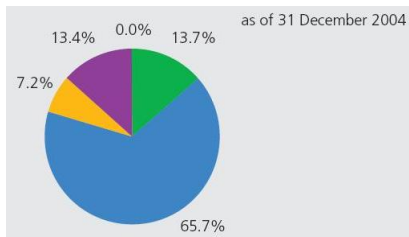


Banking Industry in the Czech Republic

Liabilities structure - 2004 and 2005

LIABILITIES STRUCTURE

for banks with licences as of 31 December 2005



■ Funds from CNB
■ Client deposits
■ Other liabilities

■ Bank deposits
■ Equity capital and reserve funds

Source for all charts and graphs: CNB (2005). Banking Supervision 2005.
<http://www.cnb.cz>