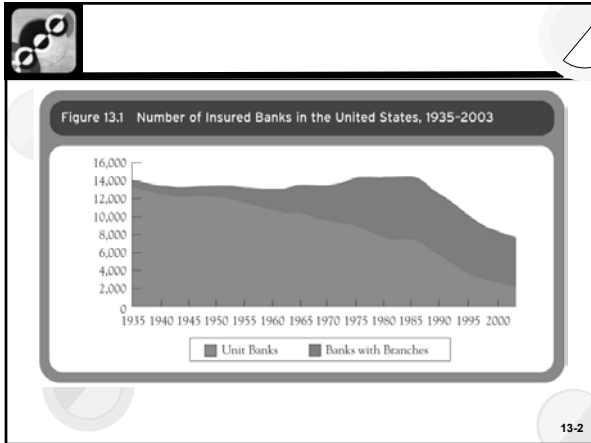


Chapter 13

Financial Industry Structure

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Banking Industry Structure

- Competition and Consolidation

Table 13.1 Number and Assets of Depository Institutions, 2003
(includes commercial banks, savings and loans, and savings banks)

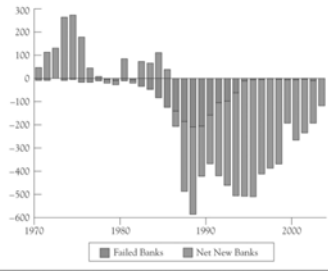
| Size of Institution (Assets) | Number | Percent of Total Assets |
|------------------------------|--------|-------------------------|
| Less than \$100 million | 4,390 | 2.5% |
| \$100 million to \$1 billion | 4,211 | 12.8% |
| \$1 billion to \$10 billion | 471 | 14.5% |
| \$10 billion or more | 110 | 70.3% |
| Total | 9,182 | \$9.1 trillion |

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Banking Industry Structure

Figure 13.2 Change in the Number of Insured Banks in the United States, 1970-2002





Key Legislation Affecting the U.S. Banking Industry

- **1927 McFadden Act:** Outlawed interstate branching and required national banks to abide by the laws of the state in which they operated.
- **1933 Glass-Steagall Act:** Established federal deposit insurance and prohibited commercial banks from engaging in the insurance and securities businesses.
- **1994 Reigle-Neal Act:** Repealed the McFadden Act's prohibition of interstate branching.
- **1999 Gramm-Leach-Bliley Act:** Repealed the Glass-Steagall Act's prohibition of mergers between commercial banks and insurance companies or securities firms.



Banking Industry Structure

- **The Globalization of Banking**
 - foreign branch that offers the same services as those in the home country
 - eurodollars
 - the interest rate at which banks lend each other eurodollars, called the London Interbank Offered Rate (LIBOR),



Banking Industry Structure

- The Future of Banks
 - financial holding company
 - universal banks
 - economies of scale
 - economies of scope.



Table 13.4 Relative Size of U.S. Financial Intermediaries, 1960-2004

| | Approx. Number 2000 | Assets (\$ billion) 2004 | Percentage of all Intermediary Assets | | | | |
|--------------------------------|---------------------|--------------------------|---------------------------------------|-------|-------|-------|-------|
| | | | 1960 | 1970 | 1980 | 1990 | 2004 |
| Depository Institutions | | | | | | | |
| Commercial banks* | 8,000 | 8,043.9 | 38.2% | 37.2% | 35.7% | 29.3% | 23.8% |
| Savings institutions | 1,500 | 1,556.5 | 18.8 | 18.8 | 18.8 | 12.1 | 4.6 |
| Credit unions | 10,000 | 634.5 | 1.1 | 1.3 | 1.5 | 1.9 | 1.9 |

Total Assets of All U.S. Financial Institutions in 2004 = \$34 trillion



Table 13.4 Relative Size of U.S. Financial Intermediaries, 1960-2004

| | Approx. Number 2000 | Assets (\$ billion) 2004 | Percentage of all Intermediary Assets | | | | |
|----------------------------|---------------------|--------------------------|---------------------------------------|------|------|------|------|
| | | | 1960 | 1970 | 1980 | 1990 | 2004 |
| Insurance Companies | | | | | | | |
| Life insurance | 1,500 | 3,848.8 | 19.4 | 14.8 | 11.0 | 12.1 | 11.4 |
| Property and casualty | 3,200 | 1,068.5 | 4.4 | 3.7 | 4.3 | 4.7 | 3.2 |
| Pension Funds | | | | | | | |
| Private pension funds | 32,500 | 4,259.2 | 6.3 | 8.1 | 12.0 | 14.4 | 12.6 |
| Government pension funds | 1,150 | 3,265.5 | 3.3 | 4.4 | 4.7 | 6.5 | 9.6 |

Total Assets of All U.S. Financial Institutions in 2004 = \$34 trillion



Table 13.4 Relative Size of U.S. Financial Intermediaries, 1960-2004

| | Approx. Number 2000 | Assets (\$ billion) 2004 | Percentage of all Intermediary Assets | | | | |
|---|---------------------|--------------------------|---------------------------------------|------|------|------|------|
| | | | 1960 | 1970 | 1980 | 1990 | 2004 |
| Mutual Funds | | | | | | | |
| Money-market funds | 1,300 | 1,971.9 | 0.0 | 0.0 | 1.8 | 4.4 | 5.8 |
| Stock and bond funds | 11,000 | 4,890.4 | 2.9 | 3.5 | 1.6 | 5.7 | 14.5 |
| Finance Companies | 2,000 | 1,401.4 | 4.7 | 4.7 | 4.9 | 5.4 | 4.2 |
| Government-Sponsored Enterprises ^a | 7 | 2,824.9 | 1.0 | 3.4 | 4.2 | 3.7 | 8.4 |

Total Assets of All U.S. Financial Institutions in 2004 = \$34 trillion



Table 13.5 Summary of Financial Industry Structure

| Financial Intermediary | Primary Sources of Funds (Liabilities) | Primary Uses of Funds (Assets) | Services Provided |
|-------------------------------|---|--|---|
| Depository Institution (Bank) | Checkable deposits Savings and time deposits Borrowing from other banks | Cash Loans Securities | <ul style="list-style-type: none"> Pooling of small savings to provide large loans Diversified, liquid deposit accounts Access to payments system Screening and monitoring of borrowers |
| Insurance Company | Expected claims | Corporate bonds Government bonds Stocks Mortgages | <ul style="list-style-type: none"> Pooling of risk Screening and monitoring of policyholders |



Table 13.5 Summary of Financial Industry Structure

| Financial Intermediary | Primary Sources of Funds (Liabilities) | Primary Uses of Funds (Assets) | Services Provided |
|------------------------|--|---|--|
| Securities Firm | Short-term loans | Commercial paper Bonds | <ul style="list-style-type: none"> Management of asset pools Clearing and settling trades |
| Investment Bank | | | <ul style="list-style-type: none"> Immediate sale of assets Access to spectrum of assets, allowing diversification Evaluation of firms wishing to issue securities Research and advice for investors |
| Mutual-Fund Company | Shares sold to customers | Commercial paper Bonds Mortgages Stocks Real estate | <ul style="list-style-type: none"> Pooling of small savings to provide access to large, diversified portfolios, which can be liquid |



Table 13.5 Summary of Financial Industry Structure

| Financial Intermediary | Primary Sources of Funds (Liabilities) | Primary Uses of Funds (Assets) | Services Provided |
|---------------------------------|---|---|---|
| Finance Company | Bonds Bank loans Commercial paper | Mortgages Consumer loans Business loans | • Screening and monitoring of borrowers |
| Pension Fund | Policy benefits to be paid out to future retirees | Stocks Government bonds Corporate bonds Commercial paper | • Pooling of employees' and employers' contributions • Diversification of long-term investments to ensure future income for retirees |
| Government-Sponsored Enterprise | Commercial paper Bonds Loan guarantees | Mortgages Farm loans Student loans | • Access to financing for borrowers who cannot obtain it elsewhere |

Chapter 13

End of Chapter
