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Banks working for themselves: financial intermediation and the banking crisis of 2007

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The role of banks in the economy is justified in the mainstream economics and finance literature by their ability to reduce informational asymmetries and to innovate risk transformation instruments. The political economy literature on governance, on the other hand, sees an important institutional role for banks in disciplining firm managers and facilitate financing of long-term productive activities of firms. The current banking crisis, however, has raised serious questions about such efficiency-based arguments and has undermined the arguments about financial innovation as market-based mechanism to support productive activities. The literatures on financial intermediation and corporate governance focuse on the efficiency of financial institutions and markets but ignores the historical transformation in banking since the early 1980s during which the Western economies have become financialized. In the first section this paper will provide a comprehensive critical review of the mainstream banking literatures. The second section will argue, through a set of empirics, how banks have reinvented themselves in a financialized economy by radically changing their balance sheet structure and revenue sources. The third section will conclude.

Key words: Banks, financial intermediation, financialization, financial crisis

1.a) Theories of banking and financial intermediation

The mainstream literature on banks is concerned about why banks exist and what they do, and has developed universal theoretical models to explain their role in the economy and how they behave in achieving their profit motif. In the earlier literature, the roots of which can be traced back to Gurley and Shaw (1955), the existence of banks is justified because financial markets are informationally imperfect and there are transaction costs (see for example Klein, 1971; Benston and Smith, 1976; Leland and Pyle, 1977). In their comprehensive survey of the literature on banking Bhattacharya and Thakor (1993) re-emphasize the centrality of informational asymmetry in financial markets for the positive role played by financial intermediaries in the economy: "To summarize, intermediation is a response to the inability of market-mediated mechanisms to efficiently resolve informational problems" (Bhattacharya and Thakor 1993, p. 14). In an earlier similarly comprehensive survey of the literature Santomero (1984) shared this view: "The existence question remains vital to our understanding of these institutions and why they are capable of achieving their objectives in a relatively efficient capital market" (Santomero 1984, p. 602). In this analytical model, banks achieve their profit objectives by intermediating between the economic units that have surplus funds (households) and those that require funds for investments (firms). In the banking firm retail household deposits are pooled and are transformed into wholesale diversified claims on productive firms. Evaluation of credit risk, which individual households are not capable of performing themselves due to the existence of informational asymmetries, then becomes a very specific banking function in the economy that justifies their existence. Stiglitz (1985), too, sees this role of banks in an economy of informational asymmetries and dispersed share ownership desirable because it resolves the principal-agent problem better than capital markets: "… to the extent that control is exercised, it is by banks, lenders, and not by the owners of equity, in spite of the legal form that invests responsibility for control in the hands of the owners of equity" (Stiglitz 1985, p. 140).

A series of developments that had affected the financial markets and institutions directly and indirectly during the last two decades of the 20th century weakened the theoretical basis of the financial intermediation theory. The deregulation of financial markets, the technological and financial innovations such as internet and financial derivatives, the changing composition of household portfolios which now include more risky assets, the gigantic size of pension funds and mutual funds in relation to bank assets, and such have led mainstream economists to question the validity of the relevance of transaction costs and informational asymmetry in the financial intermediation theory. The theoretical justification of banks has more or less disappeared but banks still existed. Therefore an alternative theory of banks is needed.

Allen and Santomero (1998) announced the need for a new theory of financial intermediation and duly offered one: "We offer in its place a view of intermediaries that centers on two different roles that these firms currently play. They are facilitators of risk transfer and deal with the increasingly complex maze of financial instruments and markets" (Allen and Santomero 1998, p. 1462). This view of banks brings Allen and Santomero's position closer to Merton and Bodie's (1995) who emphasize a functional approach to financial systems as opposed an institutional approach; i.e. the emphasis is on what banks do rather than why they exist.

This shift in the mainstream economics and finance to find a new universal logic to explain the role of banks in the economy is accompanied by debates on whether banks would survive at all in this new historical period (Miller 1998; Boyd and Gertler 1995) and whether bank-based economies of continental Europe would converge to market-based economies (Schmidt *et al*. 1999; Allen and Santomero 2001). Schmidt *et al*. (1999) examine empirically the financial systems in three European countries -UK, Germany and France- and conclude that disintermediation has not been significant enough to change the role of banks and banks are still strong in all three countries. But they note a relatively increasing role of markets in France. Allen and Santomero (2001) announce the decline of traditional banking business due to competition in intermediation and the consequent rise of fee-producing activities by banks in the US and the UK.

> "The world financial system has changed significantly in recent decades. In the US, banks and many other types of intermediaries have moved away from their traditional role of taking deposits and making loans. Although their share of intermediated funds has fallen they have not shrunk relative to GDP, and they remain an important part of the financial system. They have achieved this by moving away from simple balance sheet intermediation toward fee-producing activities." (Allen and Santomero 2001, p. 290).

The mainstream economics recognize the qualitative change in banking and offers a new universal logic where the asset transformation role of the banks is replaced by a risk transformation role. However, other empirical issues in the last two decades of the 20th century and the beginning of the 21st century that preoccupy another set of researchers in banking are ignored by the financial intermediation theory. The financial intermediation literature does not address the size issue in modern banking although a significant number of bank-led M&A activities during this period have created both diversified and retail-only banking giants. Another stream of banking literature examines this trend in modern banking and could not find conclusive scale or scope economies in these mergers and acquisitions. Rhoades (1993) analysed 898 horizontal bank mergers in the US between 1981-1986 and found no efficiency gains. In his review article Benston (1994) concluded that the efficiency advantages of neither form of banking –universal versus specialised- appear to be overwhelming. Vander Vennet (2002) and Casu and Girordane (2004), on the other hand, find some evidence of efficiency in financial conglomerates but with qualifications. Vander Vennet (2002) finds that “in terms of cost efficiency specialized banks appear to exhibit no disadvantage relative to financial conglomerates in traditional intermediation activities”. He also finds that conglomerates are more cost efficient only when non-traditional banking activities –insurance, investment banking and asset management- are taken into account. Casu and Girordane (2004), who examine Italian financial conglomerates, report that they found profit efficiency but no cost efficiency. Berger et al (1999) venture some explanation why financial conglomerates fail to produce clear results in efficiency: “If there were technological gains on average from consolidating branches, computer operations, payments processing, etc., these may have been offset by managerial difficulties in monitoring the larger organizations, conflicts in corporate culture, or problems in integrating systems”.

Milbourn et al (1999) also point out that dilution of focus caused by consolidation for the purposes of economies of scope is not value-maximising and can only be economically justified if the current business model is already profitable. Stiroh and Rumble (2005) examined the US Financial Holding Companies between 1997 and 2002 and found evidence that diversification benefits exist but these gains are offset by the increased exposure to non-interest activities, which are much more volatile but not necessarily more profitable than interest-generating activities. Campa and Hernando (2006) examined the M&A in the banking sector in the EU between 1998 and 2002 and found that target banks benefited higher return on equity and efficiency following their acquisition but the operating improvements observed after the merger are not correlated with the excess returns shareholders received upon the announcement of the deal.

1.b) Banks in the political economy literature:

In the political economy literature the intermediary role of banks is accepted but the problematic is how this intermediary role affects the economic growth. The bank-based economies and the capital market-based economies are compared in terms of providing finance and corporate governance to productive firms. In this context the polarity of bank-based versus capital market-based economies is used to discuss how corporate governance, as a monitoring mechanism for providers of finance, and economic performance are related (see for example Stiglitz1985; Allen and Gale 2000; Beck and Levine 2002; Levine 2002). This literature is primarily about how economic growth and the financial system are related and whether a bank-based financial system or a capital market-based system is a better form of corporate governance for economic growth.

> "The bank-based view holds that bank-based system-particularly at early stages of economic development and in weak institutional settings-do a better job than market-based financial systems at mobilizing savings, allocating capital, and exerting corporate control. In contrast, the market-based view emphasizes that markets provide key financial services that stimulate innovation and long-run growth." (Levine 2002, p.423).

In the bank-based versus the market-based debate a more comprehensive approach is developed by Schmidt and Tyrell (2003). Schmidt and Tyrell introduce a competing analytical framework, which they call 'financial system' approach. This approach describes how finance fits in the economy in a complimentary and stable way. (Schmidt and Tyrell 2003, p. 13). "It can be defined in general terms as the interaction between the supply of and the demand for the provision of capital and other finance-related services." (Schmidt and Tyrell 2003, p.3). Schmidt and Tyrell include a wider range of variables to analyse the financial system and these variables include, in addition to the sources of finance for corporations, the roles played by different types of financial institutions, the saving behaviour of households, risk management systems, corporate governance structures, etc.

In the varieties of capitalism literature, too, the financial system is an important variable in classifying economies, but the emphasis is on how the financial system is embedded to the overall institutional structure. In Hall and Soskice’s (2001) version of varieties of capitalism the providers of finance exist as actors of corporate governance and the monitoring capacities in the economy determine whether they are “patient” capital in a coordinated market economy (CME), or footloose capital in a liberal market economy (LME) which constantly watch current returns. Therefore banks are visible in Hall and Soskice to the extent that firms develop relationships with them in their endeavours to resolve co-ordination problems that are central to their core competencies. Hall and Soskice describe banks in Germany, for example, as engaging with German industry and maintaining important *Hausbank* relationships in spite of large German banks’ recent global expansion.

> “Although the large German banks are seeking a global role, they are still engaged with German industry and regional banks maintain important *Hausbank* relationships.” (Hall and Soskice, 2001, p.62).

Vitols (2001), too, portrays banks as institutions of support in CMEs and claims that banks value their business relationships with companies more than their income from finance. “Large German banks have tended to view their shareholdings as a mechanism for protecting their loans and strengthening their business relationships with companies rather than as a direct source of income.” (Vitols 2001, p. 342).
In his 2005 article, however, Vitols acknowledges the process of banks exiting from control in Germany. But Vitols argues that bank exit from monitoring has happened only in large listed German companies.

> “What are the implications of the withdrawal of the banks for German corporate governance? The analysis developed here is that the resulting changes are and will be less extensive than some have suggested, and certainly will stop far short of convergence to the Anglo-Saxon system of dispersed shareholding.” (Vitols 2005, p.12).

In his 2005 article Vitols also claims that the view that in Germany banks are the major providers of finance was a misconception. But Vitols uses equity finance provided by banks as the measure rather than the loans in making this statement. Earlier Mayer (1988, 1990), Edwards and Fisher (1994) and Corbett and Jenkinson (1996, 1997) used loans as the measure of financing and concluded that the fact that banks in Germany major providers of finance was a misconception. Hacketal and Schmidt (2003), on the other hand, contested this view by pointing out that the data used in measuring the bank finance was incorrectly calculated because loan repayments by companies are subtracted from loans borrowed. Hacketal and Schmidt (2003) instead used the gross lending by banks and found that bank finance has always been very important in Germany accounting for 80% or more of non-financial firms' finance between 1970 and 1996. Schmidt and Tyrell (2003) support this finding by Hacketal and Schmidt. By using a variety of measures including household portfolios, stock market activity, sources of corporate finance and corporate governance structure Schmidt and Tyrell (2003) argue that Germany clearly was a bank-based system until mid-1990s. But they note a significant change in Germany in the second half of the 1990s which is characterised by the increasing role of the stock market in Germany. Hence, they believe the financial system in Germany has lost its consistency and a tendency towards a capital market-based system has set in. But they think it is too early to describe this change as permanent because the Neuer Markt has not recovered from the dot.com crash of 2000, big private German banks suffered financially in their pursuit to transform themselves into investment banks, and the German corporations face credit crunch rather than support from the German banking system.

> "A financial system with grave inconsistency is under pressure to restore consistency. … we think that something needs to be done quickly and with great resolve to restore consistency and thus also efficiency. … we expect the German financial system to return to its path of transition to a capital market-based system. But the path is going to be rough and long." (Schmidt and Tyrell 2003, p. 50)

Amable (2003) is another author who opposes a strict polar classification of the economies into bank-based versus market-based but nevertheless emphasizes the banks' financing role in Germany. By using cluster methodology he finds that Germany belongs to that group of countries where ideal bank-based system exists. These countries include Japan, France, Austria, Italy, Portugal and Spain, and characterised by high credit to GDP ratio, important share of insurance companies among institutional investors, little M&A activity, weak development of accounting standards and a lagging venture capital sector. Schmidt and Tyrell (2003), on the other hand, find France different than Germany, as France has not exhibited a consistent bank-based system. "Thus, in stark contrast to both the German bank-based financial system and the British capital market-based system, the French financial system has not been stable." (Schmidt and Tyrell 2003, p. 47) Similarly they find US different than the UK as the rise of financial conglomerates in the former makes it a less consistent capital market-based system compared to the latter. Although the positions in the political economy literature on the measurement and definition of bank-based versus market-based economic systems are different, all positions share the same view that the financial system in general and banks in coordinated economies in particular are support mechanisms for productive firms. Schmidt and Tyrell recognizes the changes in recent times and admit that the polarity of bank-based versus market-based systems are ideal rather than real, they still view banks as intermediaries between the household depositors and the corporate borrowers.

Both the mainstream economics and the political economy literatures on banking do not seem to have noticed the transformation of the banks' balance sheets and their revenue sources since the early 1990s. Such data on banking show that banking has become increasingly a business where their role in providing finance to the productive sector is no longer the dominant one. Financing households, selling investment products to households and transacting between themselves through instruments of financial innovation have become the dominant activity of financial intermediation. It is not possible to understand and appreciate the gravity of the current banking crisis without analysing such transformation of banking in major economies. Next section will argue, through a number of time-series data, how banking re-invented itself over the last two decades or so and has little resemblance to what the literatures covered in this section project.

2. How banks re-invented themselves?

One of the consequences of the continuing banking crisis is a deepening scepticism both in the business world and in the society about banks' capability in risk management. Until August 2007 the consensus in both the banking community and amongst bank regulators was that banks have mastered the science of risk management through financial innovation. The mainstream academic literature on the banking firm, too, has also reinforced this view of modern banking as masters of transforming risk in the economy as discussed in the first section of this paper. Therefore recent historically high levels of profits in banking, especially in investment banking, have been justified by this common perception about modern banks' innovative nature. However, banks' balance sheets and revenue sources tell us a very different story.
For example, in the UK banks now lend more to other financial institutions than to the non-financial corporate sector. Table 1 shows that in 1990 the share of other financial institutions in total lending by UK banks was about 13%, but nearly doubled by 2005 to about 25%. The share of non-financial firms has declined from 25% to 21% over the same period. Therefore with insight from such data on bank balance sheets it is easier to understand how conduits, special investment vehicles, wholesale funding of building societies, etc. have transformed the composition of credit risk in bank lending portfolios. Another evidence that demonstrates banks' increasing disconnect from the corporate sector can be observed in the composition of investment banking revenues in the US. Table 2 shows how the leading US investment banks now rely on putting their own capital at risk in global financial markets for revenue rather than the traditional investment banking revenues from advising and underwriting securities for their corporate clients, and trading on behalf of their customers. The strategy of Merrill Lynch under Stan O'Neal, who had to leave because putting the bank's own capital at risk under his tenure did not create sustainable revenues but instead led to big write-offs in 2007, was to catch up with Goldman Sachs by expanding the bank's proprietary risk taking businesses. As table 2 shows Merrill Lynch is far behind Goldman Sachs with only 30% of its revenues coming from putting its own capital at risk compared to Goldman Sachs' 60%.

These structural shifts in both bank revenues and balance sheets demonstrate that how contemporary banking is less about serving the corporate sector than about risking banks' own capital in volatile financial markets. Therefore this current banking crisis differs significantly from earlier ones because it involves complicated and opaque risk transactions between banks rather than between banks and their corporate customers. The fact that the banking community can not agree on valuing subprime lending related securities is quite worrying for their corporate customers who pay banks to do just this kind of intermediary services. Corporate customers of banks who rely on banks in hedging risk and act as creditworthy counterparties in derivative transactions understandably will start to question banks' ability to perform such intermediary roles effectively. Also as banks allocate more capital against the risks that they find themselves unable to manage successfully, their ability to meet their corporate customers' needs will be expected to be limited. It will not be surprising if such scarcity of bank capital have lead to higher pricing of bank services to the corporate sector and credit crunch has become the source of a major recessionary trend globally. Banks' failure to manage risk within the financial sector and in financial markets resulted in credit crunch and eventually harmed their sound corporate and retail customers in spite of capital injections to banks by governments.

The origins of current banking crisis lie in the originate-and-distribute banking model that is based on sub-prime lending. As table 1 shows UK banks lend more to the households than to the financial and non-financial corporations combined. Even in France, as table 3 shows, where banks traditionally have been support mechanisms for the non-financial corporate sector the balance has changed and the households now account for 52% of bank lending whereas non-financial firms 42%. Even more striking in the case of France is the fact that the share of fee income in total revenues of French banks has been higher than 50% since mid 1990s. (See table 3). This ratio is higher than the UK and US banks that have always emphasised the strategic importance of fee income. In 2003 the ratio was about 57% in France compared to about 46% in the UK and 45% in the US.

Although the current banking crisis is embedded in the wholesale financial markets we should not lose sight of the fact that banking sector increasingly relies on interest income from loans and the fee income from selling investment products to households. Table 5 shows how the leading continental European countries converged to the UK norm in the share of risky assets in household financial portfolios. In 1980 in Germany, France and Italy the households held less than 10% of their financial assets in risky assets through financial intermediaries. By 2003 this ratio has steeply increased to about 28% in Italy, about 39% in France and about 42% in Germany. With the coming into force of MiFID in the EU in November 2007 developing and selling retail investment products to the households in the EU are expected to become increasingly important for the EU banks. The financial conglomerate model has been widely believed to be an optimal business configuration in the light of such secular developments in the EU because the future of banking would be all about originating investment products in capital markets for upstream distribution in the retail sector. But the current financial crisis which raises serious questions about the banking sector's capability to effectively develop long-term investment products is not likely to create confidence in the consumer market for such banking model- especially when the memories of serious conflicts of interest cases in the US after 2000 and various mis-selling and over-charging cases in the UK are still fresh on people's minds.

Just like corporations who, as explained above, are going to have justifiable doubts about banks, retail customers of banks, too, have every reason to question the banks' ability to provide retail investment products for households' increasingly complex and at the same time vital long-term investment decisions. I think it is absolutely necessary that the regulators and the banking community quickly come up with convincing answers for the legitimate questions from their corporate and retail customers.

3. Conclusion

Although the current rhetoric by the world's leading governments on the current banking crisis promises better future regulation and restrictions on excessive pay in banking, it fails to enlighten us about why banking was allowed to change the way it did over the last two decades with official support, and what exactly is going to be regulated once the dust settles. A convincing analytical diagnosis of what went wrong is needed before populist knee-jerk reaction. One of the key problems in banking before the crisis was the mind-boggling opaqueness of banks' revenue sources and business models. In investment banking the traditional revenue sources from serving corporate customers have been replaced by bonus driven principal transactions that are promoted as financial innovation. Lehman Brothers, a monumental casualty of the current financial crisis, was trying to catch up with Merrill Lynch and Goldman Sachs in revenues from principal transactions. About sixty per cent of Goldman Sachs' and Merrill Lynch's total revenues came from such leveraged risk taking on their own capital. Bank balance sheets have grown at dizzying rates through securitization of mortgages and other loans as it allowed regulatory arbitrage and high leverage. Citi's balance sheet has more than doubled between 2000 and 2007. Given that the GDP growth rates in the developed economies did not exceed at best 3% per annum over this period there was no economic justification for such growth. The economy needs more transparent banks with less complex business models where the risks remain on bank balance sheets and are funded by less volatile sources. The latter requires a re-examination of the interconnectedness between financial institutions through various over-the-counter financial markets and financial institutions so that one financial institution's problems do not cause systemic catastrophe.

Financial conglomerates are in the centre of today's financial problems and they were actively encouraged by the US and European governments since the early 1990s. This rise of financial conglomerates coincided with phenomenal growth of mass savings in the form of pensions, insurance premiums and mutual funds. Together with increasing household indebtedness especially after the dot.com crisis of 2001, where mortgages on inflated house prices had the largest share, we have witnessed the financialization of households in major economies. Even in financially conservative countries like Germany and France the share of risky assets in household financial assets increased to above 60% between 1980 and 2000. Financial conglomerates feeding on financial innovation and household financialization have led to a financialized economy especially in the US and the UK, where the finance sector has dominated the economic activity by size and profits. In addition to these quantitative radical changes in the economy there were qualitative forces like the primacy of shareholder value in company strategy, which meant the companies competed in the stock market rather than the product market, and the financialization of households, where debt, financial investments, house prices have become more important for most households than their wage income.

Although the key preoccupation in economics during the last two decades has been globalization, the process of financialization is little discussed and understood. I do not think it is possible to fully understand the causes of the current crisis, which so many people increasingly compare with the Great Depression of 1929, without comprehending the financialization especially of the US and the UK economies. If I am allowed to resort to the convenience of stylised facts I can describe the contemporary international economy as follows: Germany produces capital goods, China consumer goods, Gulf States, Brazil and Argentina commodities, etc. What does the U.S. produce? Since the early 1990s the U.S. economy creates financial assets both for domestic and international consumption. The size of global assets managed by pension funds, insurance companies, mutual funds, etc. is about USD 60 trillion that constantly look for high yield financial assets to invest in. Sliced and diced sub prime mortgage-backed securities, which people now call “toxic assets” were such products. In order to be able to understand why this current financial crisis is so severe and requires such unprecedented government intervention we need to take notice of this structural transformation of the U.S. economy. Banks in the U.S. and Europe have increasingly become firms that are disconnected from the real economy. Their revenues derive mainly from transacting and trading between themselves, activities that allow bankers to generate high bonuses as well. What we need is not simply more regulation but a radical re-design of the financial architecture where the roles of financial institutions and financial markets are re-defined in a financialized economy. To that extent the current financial crisis also necessitates a re-consideration of the social role of finance in today’s financialized economy. Both the culture and practice of finance need to be radically re-thought because the issue is more than technical adjustments to the banking regulation. What the world economy needs is social finance where long-term needs of households for housing and pensions are met without creating costly asset bubbles that the last twenty years’ shareholder value-based finance, which encouraged bonus driven financial innovation, has produced.

Table 1: Share in total net sterling lending by the U.K. monetary financial institutions (in per cent)[1]

	1963	1970	1975	1980	1985	1990	1995	2000	2005
Private non-financial Corporations	38.3	38.3	34.8	30.6	23.4	25.1	19.8	20.6	21.2
Households	57.4	59.0	58.3	60.8	67.2	60.9	62.3	56.2	54.4
Other financial corporations	4.3	2.7	6.8	8.6	9.4	13.9	17.9	23.1	24.4

[1]Total net sterling lending is the sum of lending to non-financial private corporations, households and other financial corporations.

Source: own elaboration based on data from Bank of England, Monetary financial institutions' balance sheets, income and expenditure, http://www.bankofengland.co.uk/statistics/index.htm

Table 2: The breakdown of investment bank revenues

		2001	**2002**	**2003**	**2004**	**2005**
Goldman Sachs	Traditional investment banking	24%	20%	17%	16%	15%
	Principal transactions and trading	61%	62%	65%	65%	66%
Lehman Brothers	Traditional investment banking	29%	28%	20%	19%	20%
	Principal transactions and trading	60%	59%	70%	66%	67%
Merrill Lynch	Traditional investment banking	16%	13%	13%	15%	14%
	Principal transactions and trading	31%	30%	34%	305	32%

Source: Annual Reports

Table 3: Share in total lending by French monetary financial institutions (in per cent)[1]

	1993	1995	1997	1999	2001	2003	2005
Private non-financial Corporations	53.4	52.8	49.2	48.7	47.5	43.8	42.1
Households	45.5	46.0	48.1	48.2	46.3	49.6	51.5
Other financial corporations	1.1	1.2	2.7	3.1	6.3	6.6	6.4

[1]Total lending is the sum of lending to non-financial private corporations, households and other financial corporations.

Source: own elaboration based on data from Banque de France, Debts and liabilities of French credit institutions,
http://www.banque-france.fr/gb/stat_conjoncture/series/statmon/html/tmf_trim_ifm_gb_debtfcirps.htm

Table 4: Net non-interest income of credit institutions (in per cent)[1]

	1984	1990	1995	2000	2003
France	n.a.	22.6	45.5	60.9	56.7
Germany	18.0	26.8	21.0	35.8	27.1
Netherlands	24.7	28.4	33.3	47.0	39.2
Italy	24.6	22.0	19.8	36.1	30.2
UK	35.6	38.7	42.7	43.2	46.4
USA	24.7	33.0	35.3	42.8	44.6
Simple average	**25.5**	**28.6**	**32.9**	**44.3**	**40.7**

[1]The share of non-interest income in total net non-interest income and net interest income of all financial institutions -excluding the Central Bank- and their main legal categories: commercial banks, co-operative banks, savings banks, municipal financial institutions, finance companies and specialised financial institutions. The UK and USA data is for commercial banks only.

Source: Ertürk & Solari, 2007

Table 5: The share of safe and risky financial assets in household portfolios (percentage)

	ITALY					FRANCE				
	1980	1987	1995	2000	2003	1980	1987	1995	2000	2003
Safe assets	77.8	70.3	64.6	31.5	33.8	58.5	42.0	36.5	27.3	30.2
Risky assets	22.2	29.7	35.4	68.5	66.2	41.5	58.0	63.5	72.7	69.8
Intermediated	*6.0*	*11.1*	*14.6*	*28.5*	*28.3*	*9.3*	*19.4*	*32.3*	*33.4*	*38.8*
Non intermediated	*16.3*	*18.7*	*20.8*	*40.0*	*37.8*	*32.2*	*38.6*	*31.2*	*39.2*	*31.1*
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	U.K.				GERMANY					
	1987	1995	2000	2003	1980	1987	1993	1995	2000	2003
Safe assets	31.9	25.3	21.1	27.9	52.4	47.2	45.0	41.8	34.0	35.7
Risky assets	68.1	74.7	78.9	72.1	31.0	32.5	55.0	58.2	66.0	64.3
Intermediated	*48.3*	*54.6*	*57.9*	*57.1*	*7.3*	*4.8*	*30.4*	*33.2*	*39.1*	*41.4*
Non intermediated	*19.8*	*20.2*	*20.9*	*15.0*	*23.7*	*27.7*	*24.6*	*25.1*	*26.9*	*22.9*
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note**:** Safe assets are bank deposits and government bonds and risky assets are direct and indirect stock market investments and corporate bonds.

Source: Ertürk et al, 2005

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