**Breaking up**

*A dramatic restructuring for ING. Which big European bank is next?*


If Iceland is the place that has suffered most from the banking crisis, the Benelux countries can make a justifiable claim to second place. After the calamitous sale of ABN AMRO and the subsequent dismemberment of Fortis, ING, the biggest bank in the Netherlands, announced on Monday October 26th that it was splitting itself up. The bank will sell its insurance businesses, divest the American arm of its ING Direct online-banking unit and carve out some bits of its Dutch retail activities. By the time the restructuring is done, in 2013, the bank's balance sheet will be 45% smaller than it was in September 2008.

That isn't all. The bank also announced plans for a €7.5 billion ($11.2 billion) rights issue to help repay half the money that the Dutch government injected into ING in October last year. Investors reacted with dismay to the prospect of dilution and the uncertainty of the planned restructuring, sending the bank's shares down sharply on Monday.

Other equity investors were spooked, too, as they digested the wider implications of the announcement. For shareholders in other banks that have received state aid, the biggest concerns surrounded the European Commission's role in ING's break-up. The Dutch bank has its own reasons to act. The rights issue can largely be explained by ING's desire to start escaping government investment. The break-up is consistent with a "back to basics" plan announced in April by Jan Hommen, ING's chief executive, that promised to simplify and shrink the institution. Splitting banking and insurance should rid ING of a conglomerate discount. Its shares have historically traded at a 30% discount to bank and insurance indices.

Even so, the plan signals that the Commission's competition watchdogs, with which ING worked closely to develop its restructuring proposal, are taking a heavily interventionist approach to banks that got state aid. The scale of the break-up went further than many expected. The Commission also levied an additional fee on ING for its participation in a risk-transfer scheme with the Dutch government, to be paid out of the proceeds from the rights issue. ING promised not to make any acquisitions that would slow down the repayment of government capital. And it also pledged not to take price-leading positions in retail and commercial banking. Markets are betting that institutions such as Lloyds Banking Group and Royal Bank of Scotland in Britain, and KBC of Belgium, will be forced into punitive restructuring agreements: shares in all three slid sharply after the announcement.

Aside from the muscularity of the Commission, there are two other trends that ING's announcement highlights. The first is that the "bancassurance" model of combining banking and insurance in a single institution is now squarely out of fashion. To underline the point, Standard Life, an insurer, announced the sale of its banking arm to Barclays, on the same day. A focus by investors and regulators on the simplicity and size of institutions is one explanation.

Another is the realisation that the diversification benefits afforded by having insurance and banking businesses can be more apparent than real. A more robust approach to consumer protection may also make it harder to cross-sell insurance products to banking customers.

ING's break-up also reinforces a tendency among many retail institutions to focus more on their core markets. There are exceptions to this rule, of course, Spain's Santander notable among them. But by the time ING's restructuring is complete it will have gone back from being an aspiring global player to a European bank with a strong core in Belgium and the Netherlands. That retrenchment reflects structural pressures as well as the decisions of competition officials in Brussels. These are the need to have strong market shares to achieve cost savings in an environment of more subdued growth, the increased emphasis on deposits as a funding source and continuing uncertainty over the regulatory infrastructure for cross-border banks. ING is being forced down a road it may well have travelled anyway.

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