Slimming cures

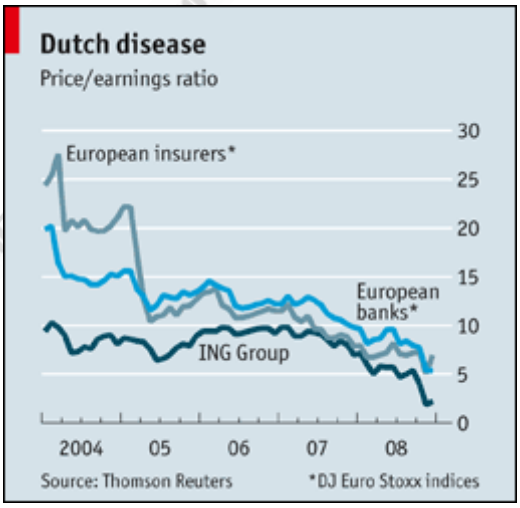
The great carve-up of European banking continues.

European bank presentations used to be filled with graphs of assets that sloped pleasingly upward. For those at the mercy of the European Commission, they now all lurch sickeningly downward.

On October 28th the commission approved plans to split Northern Rock, which was nationalised by the British government last year, into two. The bigger surprise came two days earlier when ING, the biggest bank in the Netherlands, said that it would dismember itself—splitting its banking and insurance businesses and selling its American online-banking arm—and shrink its balance-sheet by almost half. Such butchery was unexpected. Earlier plans for "back to basics" banking entailed salami-slicing businesses worth just €2 billion-3 billion ($3 billion-4.5 billion).

The commission's competition watchdogs, however, insisted that ING should pay a price for having been bailed out twice. The Dutch government injected €10 billion into the bank in October 2008. In January it then took on most of the risk on ING's €28 billion portfolio of toxic assets. As penance the bank will have to pay the government an extra fee of €1.3 billion for the "insurance" of these assets, as well as lopping off large parts of its business. "ING is trying to present its enforced break-up as the next step of its back to basics strategy, but it is nothing of the sort," wrote analysts at CreditSights, a ratings firm. "It is a humiliating climb-down forced on it by the European Commission."

The split of its insurance and banking businesses will probably do ING good. Its market value has historically been worth less than the sum of its parts (see chart) and its plan to sell insurance and pensions through bank branches never really paid off. Other banks with insurers are also struggling, especially as regulators force both businesses to hold more capital.



More troubling for ING's future is that it will have to compete with one hand behind its back. The commission has forbidden it from offering the most competitive prices. With such restrictive conditions attached to government aid, the bank is doing its best to wriggle out from under it. It plans to sell €7.5 billion worth of shares to repay half of the government's money.

The restructuring of ING and Northern Rock, alongside an earlier decision to shrink Germany's Commerzbank, provide the strongest indications yet that the commission's watchdogs are determined to cut European banking's national champions down to size. Royal Bank of

Scotland and Lloyds Banking Group, which were both big recipients of British government bail-outs, are expected to have to sell off large parts of themselves.

A more bustling European banking market would be no bad thing, but the commission risks causing unintended damage to cross-border banking by forcing banks to shrink. Commission officials insist they are encouraging banks to keep cross-border operations going if they are profitable. But, frets Pierre Louis, a competition expert at Dechert, a law firm, Europe's single market in banking is "the innocent bystander" that may end up getting hurt.

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