

Sintesi di

## **Diversification, diversity and systemic risk in European banking industry**

P. Morelli, G.B. Pittaluga and E. Seghezza

The theoretical approach on which the regulatory policy of recent decades is based considers a single bank and its reactions to regulatory constraints, such as capital requirements: if banks are sufficiently capitalized, the financial system as a whole is stable.

The recent financial crisis has shown that systemic risk can assume new forms with respect to the past.

In fact, since the 1990s, in industrial countries, globalization and deregulation have fostered a process of banking consolidation, at the same time allowing the banks to hold bonds and equities, and to develop an intense trading activity.

The increasing importance of banks' activities related to markets has led to a higher degree of homogeneity in their portfolio structures, exposing these institutions to "common shocks".

This paper provides an empirical analysis to determine the extent to which this process has affected European banks. The analysis suggests two conclusions. On the one hand, the analysis shows that bank size is proportional to the homogeneity of the structure of financial portfolios, on the other hand, it shows that diversity in the portfolio structure of the large European banks has markedly declined since the early 1990s. Hence,, in the last decades, in Europe, the systemic risk connected to "common shocks" has increased significantly.