INTEGRATION OF EUROPEAN FINANCIAL MARKETS AT THE BEGINNING OF THE 21ST CENTURY

Mădălina Antoaneta RĂDOI*

Abstract

The latest four decades have marked by their width, speed and radicality a true "revolution" on the financial market, a transformation and restructuring of financial services, of financial instruments which were used, of transaction systems, but also of competitive processes. The importance that should be given to such transformations of financial systems is given, as well, by their impact, both at the micro- and at the macro- levels, on the economy as a whole.The evolution of the European financial market at the beginning of the 21st century has followed the general trend of global markets. As a main tendency of financial market restructuring at the European level we should keep in mind the fact that there was an opening towards private financing according to the American model, due to the necessity to attract international capital resources, a process which is still ongoing.The integration of the European financial markets at the beginning of the 21st century follows the general process of financial globalization which develops rapidly on several structures of financial systems.

Keywords: *financial globalization, ideal financial market, futures market and options market, portfolio management, risk management, institutional investors, compensation facilities, trade and communication systems.*

Introduction

The integration of the European financial markets is a process preceded by restrictions of the financial systems at the global level, including the European level. These restructurings are connected to a larger opening of financial markets for the diversification of financial resources, radical transformations of financial instruments – receivable and patrimonial – the revolution of transmission systems, restructuring of trade systems, and essential changes in competitive processes, etc. these changes contribute to the extension of competitiveness advantages.

For example, deregulation, as an element of financial globalization, is one of the key processes of transition from the paradigm of management at demand, to the paradigm of supply economy, representing the opening to competition in the arbitration between regulation and competitiveness.

Starting from an ideal financial market, this paper deals with a multinational European financial market, by integrating European capital markets and banking systems the supply and demand on the European financial markets, as well as tendencies manifested on these markets.

* Lecturer, Economic Sciences Faculty, "Nicolae Titulescu" University, Bucharest, radoimadalina@univnt.ro

Literature review

THE IDEAL EUROPEAN FINANCIAL MARKET

Many Europeans would like the establishment of a multinational financial market, with a transaction volume comparable to that of the US or Japan. This would mean the integration of European capital markets and banking systems in order to allow an investor of any European country to execute its order on the best market through the best beneficiary, having access to the most efficient banking services, as well. Such a market would gather a large number of institutional investors, including an important volume of orders from all countries, and carrying along a large variety of companies (public and private). It would provide sophisticated and modern financial instruments, able to satisfy the requirements of investors, portfolio managers, transnational companies and traders.

1. The Ideal Financial Market Concept

The ideal financial market supposes a complex framework of regulations, alternative markets and adequate financial instruments, namely:

- A mutual regulation framework, able to insure the investors' protection and loyal competitiveness, without useless obstacles;
- An efficient compensation and settlement facilities, mutual for all European Union countries;
- Trade and communication systems able to insure a transparent and efficient distribution of information. Technology should have an essential part in the automatic trading, order transmission and communication of securities quotas;
- Futures and options contracts all over Europe;
- Harmonization of fees and commissions on exchange transactions and banking operations;
- A competitive framework to trigger an efficient development of financial activities.

The ideal European financial market supposes, at the same time, a professional and specialized personnel, competitive prices, a flexible management system able to combine long-term plans with the capacity to rapidly answer modifications and the effective use of technology, with an essential part in the management process and in the delivery mechanism. Emphasis should be placed on risk control, operation supervision and profitability.

2. Financial Market Restructuring – A Worldwide Integration Stage

The European financial market restructuring is a condition of their integration in the global system of financial systems.

During the latest decade and most of all during the latest 5 years, the convergent evolution of financial markets in Europe with the American one was accentuated. These convergent movements have as drivers the transition to the unique currency – Euro and the globalization of financial markets.

A large opening of the European financial markets towards private markets was registered, due to the necessity to attract international capital financial resources. This is why private financial flows become the core of the international financial system. This is an element of the financial globalization process which rapidly develops on several structures of financial systems.

Also as a part of the European financial market integration we can find radical transformations in the area of Europeanization/internationalization of securities markets. The investment horizon of investors' funds gradually becomes more European. The weight of national financial securities within the portfolios of investment funds is decreasing. The volume of cross-border transactions is increasing. However, the operations of issuing financial securities, of cross-border trading and settlement are still affected by several legal, regulation and technical obstacles.

Certain entrance barriers are highlighted; and a series of legal restrictions which affect European providers of financial services on third markets (United States).

Another part of integration is formed by the revolution of the transmission systems which took place amid the strong growth of institutional investors during the latest decade, namely: mutual funds, pension funds, insurance funds, which imposed as a stringent necessity an indirect access of the public, through information and communication systems, to the financial investments on the capital, banking, foreign exchange and insurance markets.

We cannot overlook the restructuring of trade systems on the European financial markets, namely the clearing, settlement and storage systems.

The strong development of telematics and information systems for financial banking operations, also as a result of the dematerialization of monetary instruments and securities has allowed a simultaneous interconnection of monetary, foreign currency and capital markets for the performance of distance transactions, rapid fund transfers in real time.

Their effects are most benefic, namely financial markets gain efficiency, profoundness widening and liquidity.

At the same time, transaction expenses are reduced and capital markets develop a competitive advantage as compared to banks as regards the capital cost.

The integration of financial markets is connected as well to essential changes in the competitive processes, changes that contribute to the extension of competitiveness advantages, together with the deregulation of financial processes, as an element of financial globalization.

In order to facilitate the international circulation of capital, regulations concerning the free movement of capital, free movement of financial services, namely the renouncement to restrictive measures in connection with interest rates, foreign exchange regime, taxation of obligations assumed by non-residents, etc., were adopted.

The strong development of capital markets, in different forms – markets regulated in time, share markets, option markets, futures markets, forward markets, etc. – is the result of these revolutions and, at the same time, one of the most important components of the "financial revolution" facilitating integration.

The corollary of this evolution is the increasing disintermediation of financial processes on the capital markets and the decrease of the banks' part in attracting economies and company financing.

The European financial market faces not only competitiveness, but also the necessity of cooperation between the stock exchanges and the transaction systems.

Over twenty alternative transaction systems function in Europe, but we should notice the fact that as long as new transaction agreements are publicly accessible to a number of investors, they can generate some regulation problems compatible with those on share markets.

The strong recoil of the latest period on the US stock exchange markets, where the capitalization volume decreased by over several trillions dollars, has affected and shall continuously affect the European financial markets, by generating reconsiderations and temporizations of these markets' dynamics. However, we should appreciate that the integration tendency should not and cannot be reversed.

The real evolution has prevailed in the dispute among those who affirmed that the new economy changes all the problem data and determine the separation of cyclical financial crises. The crisis cyclicality is far from disappearing, it reaffirms its perenniality. More than that, the end of a bull-market, which has lasted two decades, highlights the excesses and deficiencies of financial markets.

Associated to technological innovations, these markets tend to work up and generate "speculative balloons", which sometimes leads to painful corrections.

3. Demand on the Financial Market. Participants

Many years the European financial markets registered a relatively stable demand from investors. But at present profound changes take place, which determine participants and their markets to react with new or improved strategies concerning investments, quotation, compensation and settlement of financial product delivery services.

Some specialists[1] identify certain tendencies in the demand of the European financial market.

The marginal inclination towards economies of individual investors shall increase, most of these funds being placed more in financial products than in banking deposits, as they are aware of the importance of choosing the best investment alternative. The knowledge and achievement of clients' requirements shall be the key of success.

Thus, clients shall become much more sophisticated and demanding.

Institutional investors shall give proof of high professionalism, by leveraging important investment flows to pension funds, mutual funds and insurance institutions. Like large corporations, they became familiar to risk management techniques.

The characteristics of the market demand are determined by the types of participants on the financial markets:

(i) Individual investors

Although the inclination towards economies and investments shall increase in case of individual investors, they shall probably manifest certain timidity as concerns the direct participation on the market, by preferring to invest indirectly, by specialized companies, in pension funds or insurance companies.

Direct individual investments in securities shall register a moderate growth, while indirect investments on the capital market shall spectacularly increase. A growth by about 20% was foreseen for investments in pension funds, mutual funds and investment companies. The portfolio management shall have new clients. The number of institutions in this area is considered to increase, contrary to the general trend of concentration and reduction of the intermediaries' number. A survey on portfolio management services for individual investors on financial markets revealed that the most important criteria in choosing the intermediary on the market shall be the security conferred to the client, the personnel image and qualification, as well as the ability to provide specialized services; commissions and other fees shall have a reduced influence in choosing the institution of securities investment management. The survey results are given in Fig. 1.

[1] R.W. Anderson, Donald Westfall Developments in International Capital Markets

CLIENT CRITERIA (in order of importance)	COMPARATIVE ADVANTAGES (%)			
	Banks	Securities companies	Mutual funds	Insurance companies
Security, stability	66	1	11	20
Image	67	5	8	15
Personnel qualification	44	27	8	9
Long-term performances	25	15	37	16
Previous relationships	78	10	3	5
Accessibility	91	2	2	3
Product diversification	76	5	7	7
New or innovatory products	32	28	14	16
Short-term performances	28	24	26	10
Commissions, price	29	31	17	14

Fig. 1 Portfolio management services for individual investors

Although individual economies invested in banking deposits shall decrease comparatively to investments in other financial institutions, it is estimated that banks shall have certain competitive advantages as compared to other institutions concerning portfolio management services. This is mainly due to banks security and image, to the accessibility and diversity of their products.

(ii) Instituțional investors

Their authority shall significantly grow, as they shall receive funds from individual investors, corporations of pension and treasury funds; previsions reflect the fact that the most rapid development shall be that of pension funds and insurance companies.

The efficiency criteria for institutional investors shall be the precise execution of orders, a high qualification of personnel and an efficient compensation and settlement system. With two exceptions: the institutional investors in Great Britain shall emphasize the market expertise, due to their relatively complex market environment; those from Denmark shall minimize the importance of executing orders and the compensation and settlement criterion, after the introduction of the automatic transaction and compensation systems. Surprisingly, commissions and fees shall not have a peculiar importance, especially because of competition which shall determine the decrease of tariffs and their uniformity; they shall have the part of a minimum differentiation among intermediaries.

The increase of the investors' demand shall create new opportunities for the market participants. Although some of them could profit from the structure of their branch of activity or from the relationships previously created on the market, they shall however cope with serious investments in technology and informatics in order to cope with the growth of transaction volume and control costs associated to services which were provided.

The new market participants that shall not be able to build a distribution network shall have to use the information technology in order to supply a physical office. However, important investments are necessary in services of financial product deliver, which cannot be performed without a clear business strategy and without understanding the system of computerized information.

(iii) Corporations

Corporations are among the most sophisticated investors on the financial market, although most of their activities on this market represent only a part of all their developed operations. Specialists consider that during recent years, corporations approach a professional orientation, by giving more importance to some efficient and innovatory solutions than rates charged by intermediaries.

By their shares issued on the market for the increase of their capital, corporations pursue, in the first place, the added value of services in choosing institutions to intermediate the issue.

It is unanimously accepted the fact that the demand on the financial market as a whole, and especially on the capital market, shall experience changes as concerns the clients' segment, the execution of orders, compensation and settlement, personnel strategies, marketing. However, intermediaries shall not always completely understand the performance criteria of their clients. Therefore, market surveys are very important, as they allow rapid adjustments to modifications in the clients' demand.

Providing efficient services supposes investments in technology, but also changes in trade organization and procedures. The quality and accessibility of the banking personnel, of securities companies and of other institutions on the financial market shall be real strengths. This is why an increased importance shall be given to personnel strategies, by attracting and maintaining the most competent people, by educational programs, artificial intelligence, etc.

The direct marketing and communication methods shall be useful as well, not only to promote new products and services, but also to highlight differences concerning the financial power and the "firm" image.

4. Market Tendencies. Instruments and Transactions

Tendencies of the European financial market as concerns integration reveal a series of particularly important aspects, which should be taken into account by the participants on this market:

- **Competition**

Competition among intermediaries in the first place and slightly the clients' demand and market regulations shall be the main determinants of market changes. Competition shall be tighter on the wholesale market, serving large corporations and institutional clients, and certainly it will come from foreign intermediaries, by bringing new instruments, experience and a new style of the portfolio management and from banks which shall pursue compensation of losses in traditional deposits of their clients.

- **Strategic Positioning**

The current rural environment provides unique opportunities to those who are able to implement and develop specific strategies for each business. Small-sized intermediaries shall specialize in certain market sectors, financial instruments or products, probably searching for mergers or alliances.

The innovation rhythm on the developed financial markets shall slow with their maturity. The life cycle of the new products shall be lower and lower, and the belated shall loose profit opportunities.

- **Concentration**

Competition and requirements of the financial market shall lead to an accentuation of concentration. The largest corporations in each country shall increase their market quota in all their activity sectors, except the portfolio management. Concentration shall be achieved rather by mergers and acquisitions than by an internal growth of the activity. Banks shall be the main actors of the ongoing or future merger and acquisition processes, and their purpose shall be to determine the increase of market quotas; the maintenance of market quotas can be in some cases expensive and unprofitable. Small financial securities companies and brokerage firms are the main targets of these acquisitions. Therefore, they shall try to defend themselves by alliances and mergers.

- **Management**

Successful management strategies should take into account risks and be profitability medium and long-term oriented. If personnel costs shall constitute the main aspect of companies on the financial markets, the quality and loyalty of personnel are essential. The planning of financial resources is very important for the development of some remuneration systems to insure the personnel costs flexibility.

- **Risks in a Changing Environment**

The increasing competition shall require from financial securities companies and banks the necessity to assume more risks, by trying to minimize their effects and searching for higher gains. The ability to accept and manage risk is decisive in the market fight. The complexity of financial products shall add new valences to risks on the European financial market. The rigorous personnel training and an efficient organization are key elements of the risk control. Investments in the new technologies shall allow a certain risk control, but shall never substitute competence and a permanent management of risks.

- **Strategic Importance of Technology**

Investments in technology shall differentiate the market participants, by defending large corporations against attacks on their market position. The main investments shall be in the information system, at the managers' level, the control system, the transaction and back-office systems. Important investments in technology shall certainly increase fixed costs, by changing the whole cost structure on a company on the financial market. The simple management of the communication system shall be an important competitive advantage.

I. For the Capital Market

The bond market was traditionally divided into two segments: the national bond market and the Eurobond market. At the same time with the introduction of Euro, national markets shall be integrated, by forming a unique market of European bonds, and the Eurobond market shall disappear in time from the European architecture, but shall receive an important part at the international level. Thus, a more profound and liquid bond market is expected to become more attractive for investors, as the share of securities issued in Euro shall increase within portfolios. The share market – after the current financial crisis – shall probably develop each year, knowing a capitalization growth and of the turnover of about 10-15% a year. The largest 200 European companies are expected to form a group whose shares negotiated among countries shall increase the integration of national markets and liquidity as a whole.

The derivative market shall remain the most important innovation sector, as very volatile markets and institutional investors' interests determine the demand growth for hedging instruments. The Monetary European Union (EMU) shall have a direct impact on contract structure, by the elimination of derivatives based on currencies among participant countries. As a result, the transaction volume on the intra-European specialized market shall diminish, but without affecting transactions in dollars, yens and European currencies.

Conclusions

II. For the Monetary – Foreign Exchange Market

The introduction of the unique Euro currency as a result of the implementation of a mutual monetary policy, directed by the European Central Bank at the EMU space level, shall determine the diminution of transactions on the European Monetary – Foreign Exchange Market. The foreign exchange risk shall disappear, as well as costs assigned to transaction on this market.

III. For the Credit Market

The banking sector shall gain from expanding and deepening of the European financial market, which shall become really comparable and competitive as compared to that of the American dollar which is still dominating, but which shall be confronted as well with high costs.

The credit market shall be strongly competed by the capital market, as a result of the extension of Euro securities, to the detriment of bank loans.

References

- Briand, Aristide, Memoire sur les Etats Unis d'Europe, Stock, Paris, 1931
- M. Artis, Lee Eds, The Economics of European Union, Oxford University Press New York, 1995
- Baldwin, Towards an integrated Europe
- Banca Nazionale del Lavoro, European Monetary Union: the transition to single currency, Editura BNL, Roma 1996
- Bodrus, Gh. Rădăceanu Ed., Globalitate şi management, Bucharest, All Bek Printing House, 1999
- Belli, N, Uniunea Europeană: Geneza şi instituţiile sale, Printing House of the Economic Information and Documentation Center of the Romanian Academy, 1995
- Belli, N, Tranziţia mai grea decât un război, România 1990-2000, Bucharest, Expert Printing House, 2001
- Bertrand,G (coord) , Scenarios 2010. European Com
- Epperson, R, Noua ordine mondială. Bucharest, Lumina Lex Printing House, 1999
- Lutaş, M, Integrarea economică europeană, Bucharest, Ec. Printing House, 1999
- Maliţa, M, Cronica anului 2000, Bucharest, Political Printing House, 1969
- Richard G. Lipsey, K. Alec Chrystal, Economia Pozitivă, Economical Printing House, 1999
- Alexander Italiener, One market, one money, Oxford University Press, New York, 1992
- Alan. C. Shapiro, Multinational Financial Management, Allyn and Bacon Printing House, Needham Heigts, Maaschusets, 6th Edition, 1996

- Jose Vinats, Strategy and tactics of monnetary policy: examples from Europa and Antipodes, Imprenta del Banca de Espana, 1994
- Loukas Tsoukalis, The new Euroopean economy, Oxford University Press, New York, 1993
- loan Bari, Economie Mondială, Didactic and Pedagogical R.A. Printing House, Bucharest, 1997
- Cezar Basno, Nicolae Dardac, Constantin Floricel, Monedă, Credit, Bănci, Didactic and Pedagogical R.A. Printing House, Bucharest, 1997
- Alexandru Olteanu, Management Bancar, Ed. Macarie, 2000
- Alexandru Olteanu, Florin Manuel Olteanu,Leonardo Badea, Management şi elemente de marketing bancar, Ed. Macarie, 2001
- Alexandru Olteanu, Mădălina Antoaneta Olteanu, Piețe de capital şi Burse de Valori, Printing House of the “Andrei Şaguna” Foundation, 2011
- Alexandru Olteanu, Mădălina Antoaneta Rădoi, Politici şi strategii naționale şi comunitare în domeniul financiar-bancar, Printing House of the “Andrei Şaguna” Foundation, 2010
- Romano Prodi, Un idea dell 'Europa, Bologna Iaşi, Polirom Printing House, 2001
- Wemdenfeld W, Essel W., L'Europe de A a Z - Guide d'integration europenne, Luxemburg, Office des publications officials des Communicates Europennes, 1997
- Iulian Văcărel, Relații financiare internaționale, ALL Printing House, Bucureşti, 1992
- Călin Vârsan, Investiții internaționale, Oscar Print Printing House, Bucharest, 1995
- Collection of magazine "Piața Financiară", 1999-2001
- Collection of magazine "Ziarul Financiar", 1999-2001
- www.bnro.ro
- www.europe.eu.com