



Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Is the Three-Pillar System still Consistent with Europe's Banking Structure?

02/07/2018

Reinhard H. Schmidt explains why the German model should not be called into question



For decades, the German banking system has been based on three pillars: the private commercial banks, including the large shareholder-owned banks, the public savings banks and the cooperative credit banks.

Almost nowhere else in Europe such a three-pillar system has survived. In Italy, the savings banks were privatized, in the UK, they were sold to a private bank, in France they have been converted into yet another group of cooperative banks, and in Spain, they lost their status as public banks and almost

disappeared as a separate banking group. This suggests to ask whether the German three-pillar system is still up-to-date and fits in a Europe where banking policy, regulation and supervision are now largely the responsibility of the EU.

What speaks for the preservation of the German three-pillar system? At first glance, one might think that the increased competition in the financial sector due to European integration, worldwide liberalization and globalization should result in the almost natural disappearance of the system based on the presumption that public and cooperative banks are simply not competitive any more. However, the 200- and 170-year existence and the very strong development of the small and local banks of pillars 2 and 3 over such a long span of time speak for their competitiveness and viability. Any individual small local bank would indeed hardly be able to survive on its own, but as part of well-functioning interconnected systems, savings banks and cooperatives do so quite well. Their locally rooted business model, based on retail banking, close, lasting bank-client relationship on the one hand, and network organization on the other, create a substantial efficiency advantage. Especially the network organization permits allocating those functions in which economies of scale play an important role in central institutes and efficiently performing them while leaving the functions requiring proximity to clients and flexibility to the local institutions.

Considered as groups, the German "stakeholder-value-oriented" banks of the pillars 2 and 3 are financially not less, even slightly more successful than the "shareholder-value-oriented" so-called big banks of pillar 1 that also have large branch networks and are therefore comparable to the local savings and cooperative banks. Most notably, their business figures fluctuate far less than those of the big banks do, which usually pursue a riskier business model. This applies not only to the time before the financial crisis, but even more so during and after the crisis. Moreover, several academic studies have shown that banks whose owners have a stronger influence on management took riskier positions before the crisis in order to increase their returns than banks with a more autonomous management. International organizations such as the OECD and the World Bank have confirmed this assessment. It seems that in many private banks profit orientation and, thus also the willingness to take high risks are too high from a public policy perspective, and that this tends to endanger systemic stability. This implies that the persistence of its three-pillar banking system might be one of the reasons why Germany has come through the financial crisis comparatively well. This consideration clearly speaks for the preservation of this system.

In addition, the cooperative banks and savings banks have a regional policy balance function and a macroeconomic stabilizing effect. Unlike some major banks, they did not restrict their lending during the crisis, but even expanded it, thereby helping to limit the overall economic impact of the financial crisis in Germany. This shows again that it is advantageous for a banking system if there is not just one type of bank in it and that therefore the diversity of types of organizational forms of banking should be maintained.

The plea for maintaining diversity also has a policy dimension. Diversity is one of Europe's characteristics and strengths in international competition, confirmed by the Lisbon Agenda of 2000. Therefore, the preservation of diversity is a high-level objective of EU policy. In this sense, the preservation of the German three-pillar system is consistent with the official policy agenda of the EU. Thus, neither the assumptions that networks of rather small decentralized banks would not be economically viable in the long term, or that they would not be efficient in comparison to large banks, nor political stipulations argue for abolition, at least in the German case.

Reinhard H. Schmidt (<http://safe-frankfurt.de/de/forschung/wissenschaftler/details/showauthor/296-schmidt.html>) is a Senior Professor of Finance at Goethe University Frankfurt and Associated Research Professor at the SAFE Policy Center.

More on this topic at the Research Center SAFE:

- Reinhard H. Schmidt: Passt das deutsche Dreisäulensystem in eine zunehmend harmonisierte Bankenstruktur für Europa? (<http://safe-frankfurt.de/policy-center/policy-publications/policy-publ->

Bankstruktur für Europa: (<http://safe-frankfurt.de/policy-center/policy-publications/policy-publications/detailsview/publicationname/passt-das-deutsche-dreisaeuulensystem-in-eine-zunehmend-harmonisierte-bankenstruktur-fuer-europa.html>), SAFE Policy Letter No. 65

- Hans-Helmut Kotz and Reinhard H. Schmidt: Corporate Governance of Banks – A German Alternative to the “Standard Model” (<http://safe-frankfurt.de/de/policy-center/publikationen/detailsview/publicationname/corporate-governance-of-banks-a-german-alternative-to-the-standard-model-1.html>), SAFE White Paper No. 45
- Patrick Behr and Reinhard H. Schmidt: The German Banking System: Characteristics and Challenges (<http://safe-frankfurt.de/de/policy-center/publikationen/detailsview/publicationname/the-german-banking-system-characteristics-and-challenges.html>), SAFE White Paper No. 32

Keywords: Financial Institutions ([https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html](https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=180&cHash=ae33c76342e22f01085651c7b9b65)?)

German Banking System (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/german-banking-system.html>), Three-Pillar-System (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/three-pillar-system.html>), Banking Regulation (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/banking-regulation.html>), Banking Union (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/banking-union.html>)



Back (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)

Comments

Name *

Email *

Comment *

* These fields are required.

Want to get regular updates?

Want to get regular updates?

 Subscribe to the Finance Blog RSS feed (<http://safe-frankfurt.de/home/rss-policyblog.xml>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

Enter your email address to get regular blog updates.

* Please read our data protection statement (<https://safe-frankfurt.de/about-safe/data-protection.html>)(pdf version (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Files/Data_Protection_Statement_10Jan2020.pdf))

I agree to the data protection statement.*

Subscribe

RECENT POLICY PUBLICATIONS

Apr 2020

Corona-Bonds und ihre Alternativen (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/corona-bonds-und-ihre-alternativen.html>)

Marcel Thum, (https://tu-dresden.de/cdd/leitung_und_beteiligte/mitglieder/lebensraum-und-infrastruktur/Thum) Alfons J. Weichenrieder (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/52-weichenrieder.html>)

Apr 2020

The Case for Corona Bonds (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/the-case-for-corona-bonds.html>)

Matej Avbelj, (<https://www.eui.eu/DepartmentsAndCentres/Law/People/Fellows/BBF/Matej-Avbelj>) Antonia Baraggia, (<https://www.mmg.mpg.de/person/99018/2553>) Jürgen Bast, (https://www.uni-giessen.de/fbz/fb01/professuren-forschung/professuren/bast/team/prof_leitung) Bojan Bugarič, (<https://www.sheffield.ac.uk/law/staff/bbugaric/index>) Emanuel Castellarin, (<https://unistra.academia.edu/EmanuelCastellarin>) Francesco Costamagna, (<https://www.law.georgetown.edu/ctls/staff/francesco-costamagna/>) Anuscheh Faraha, (<https://www.oer5.rw.fau.de/prof-dr-anuscheh-farahat/>) Matthias Goldmann, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/549-goldmann.html>) Anna-Katharina Mangold, (<https://www.europeanstudies.info/en/about-ma-eus/our-team/administrative-team/prof-dr-anna-katharina-mangold-ilm-cambridge/>) Mario Savino, (<https://unitus.academia.edu/MarioSavino>) Alexander Thiele, (<https://www.uni-goettingen.de/de/pd-dr-alexander-thiele/418590.html>) Annamaria Viterbo (<http://www.dg.unito.it/do/docenti.pl/Alias?anna.viterbo#profilo>)

Apr 2020

Emerging Evidence of a Silver Lining: A Ridge Walk to Avoid an Economic Catastrophe in Italy and Spain (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/emerging-evidence-of-a-silver-lining-a-ridge-walk-to-avoid-an-economic-catastrophe-in-italy-and-spa.html>)

Christopher Busch, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/468-busch.html>) Alexander Ludwig, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/112-ludwig.html>) Raül Santaaulàlia-Llopis (<https://www.barcelonagse.eu/people/santaaulalia-llopis-raul>)

All Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)



Contact

Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3
60323 Frankfurt am Main

Phone: +49 69 798 30080
Fax: +49 69 798 30077
Email: info@safe-frankfurt.de

Find the right contact person (<https://safe-frankfurt.de/about-safe/contact.html>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

SAFE →

- About SAFE (<https://safe-frankfurt.de/about-safe.html>)
- Job Offers (<https://safe-frankfurt.de/about-safe/career/job-offers.html>)
- How to find us (<https://safe-frankfurt.de/about-safe/how-to-find-us.html>)

Policy Center →

- SAFE Senior Policy Fellows (<https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html>)
- Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)
- SAFE Finance Blog (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)
- Policy Center Team (<https://safe-frankfurt.de/policy-center/policy-center-team.html>)

Research →

- Research Departments (<https://safe-frankfurt.de/research/research-departments.html>)
- Researchers (<https://safe-frankfurt.de/research/researchers.html>)
- Data Center (<https://safe-frankfurt.de/data-center.html>)

News & Events →

- All News (<https://safe-frankfurt.de/news-latest/all-news.html>)
- Newsletter (<https://safe-frankfurt.de/news-latest/newsletter.html>)
- Expert List (<https://safe-frankfurt.de/press/expert-list.html>)



Home (<https://safe-frankfurt.de/footer-menu/home.html>) →

About this site (<https://safe-frankfurt.de/footer-menu/about-this-site.html>) →

Data Protection (<https://safe-frankfurt.de/footer-menu/data-protection.html>) →

© 2020 SAFE