

Foreign Banks and Standort Frankfurt

Foreign banks are institutions that operate with foreign capital in Germany. They are usually staffed with predominantly German nationals, their management teams are either of mixed nationalities or just German. Very often, foreign banks do not act as universal banks but rather specialize in certain products like trade finance, consumer credit, investment banking, transaction, processing services etc.

The number of foreign banks in Germany - subsidiaries and branches - grew by 11 from 162 in 2004 to 173 in 2005 - the peak was 183 banks in 1994. This increase occurred despite the ongoing active merger market and consolidation process in the financial services industry. According to recent figures released by the Association of Foreign Banks the foreign banks in Germany employ around 20.000 people. The size of its members ranges from 4 to 7.000 people. The number of employees increased by approximately 5% in 2005, thus defying the trend among German banks to reduce the number of employees. Part of the growth happened in the area of new products like asset management, custodian business, investment banking, direct banking etc.

An important measure is market share. By looking at selected areas of businesses the market share of foreign banks is big and growing. Some of the growth happened because of a growing market, some of it is

taking away market share from domestic competitors!

Take the number of banks operating at the Frankfurt Stock Exchange (FWB) on the Xetra Platform: Foreign banks represent 46% of the total banks. Their share in turnover at the Frankfurter Wertpapierbörse grew from 36% in 2004 to 49% in 2005. The market share at Eurex is even bigger and reached 85% of total turnover in 2005.

The bond market is largely dominated by foreign banks. The new issue statistics contain only two German banks among the ten market leaders. The same can be observed on the equity side, where only three of the most active ten banks are German. Auctions for German Government Papers see foreign banks as major participants: out of the fifteen leading banks eleven are foreign. In some cases a foreign bank is even the market leader. The number of mandates in the German mergers and acquisitions (M&A) business lead by foreign banks is big: Seven of the leading ten banks are foreign, the market leader is Deutsche Bank.

On top of providing additional jobs, foreign banks blend cultures, introduce new products and processes, increasing the professionalism of the market place, and offer interesting and attractive career opportunities both inside and outside of Germany. Foreign banks also offer different experiences from other markets and regulatory environments, thus



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enriching the knowledge base of Frankfurt. Their decision making process and organizational structure may be different, too. Ensuring the quality of the Finanzplatz Frankfurt, foreign banks contribute a lot to the outstanding regional position of Frankfurt in the centre of Continental Europe. The foreign banks also could (and are) using the location of Frankfurt as an efficient hub for Central and Eastern Europe, i.e. take advantage of two factors: The logistics infrastructure of Frankfurt and the knowledge base of bankers who have a wealth of experience in banking with that region. These two factors and the export oriented structure of the German economy make Frankfurt to a domestic as well as an international banking place anyway.

The existing labor pool of Germany also provides many people being very well educated and skilled in operational services. This enables foreign banks to run efficient and safe operations in areas like clearing, settle-

ment, credit work etc. These areas are also supported in Frankfurt by excellent business schools. Frankfurt has a concentration of more universities than any other financial centre.

The mix of talents and cultures described above is a great challenge and chance for one of the most important projects of the region: the building of the House of Finance at Frankfurt University. The traditionally close ties between business and academia in the Anglo-Saxon world should provide useful additional guidance for such a project through foreign banks.

It can be clearly stated that all banks and investors benefit from the services and skills of the first class operator Deutsche Börse. But Deutsche Börse as well benefits from the input and international experiences of foreign banks, particularly investment banks. Finally institutions like the European Central Bank and the Deutsche Bundesbank as well as the regulatory body of the European Insurance industry contribute importantly to the character of the financial centre, both directly and indirectly through attracting national and international attention as well as talents in various professions.

The financial centre is blessed with an efficient infrastructure, a great blend of people and cultures, an excellent skill-set of people and an unique central geographical location. Foreign banks provide a great enrichment to the place and take advantage of a great place!