Summary

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“The Banking System in Germany
Findings - Problems – Perspectives”
(Part I)

A recurrent element in the debate on the future of the German banking system is the claim that Germany is "overbanked", as a result of which its banking industry suffers from structurally induced weakness in its profitability. This thesis does not stand up to any thoroughgoing analysis. According to the findings of empirical studies, the productivity of German banks is above average by international standards. The relatively low level of profitability is due not to the banks being too small or to their cost structures being too inefficient, but to the relatively low margins they are able to achieve as a result of the intense competition between them. This is of benefit to consumers, who pay considerably less for banking services than in countries such as Italy or the UK.

In view of this (positive) market effect, it is difficult to understand why so many people should be raising their voices to demand changes to the organisational and regulatory framework which would allow a greater consolidation of the German banking market, especially as it has so far not been possible to demonstrate any connection between the size of banking institutions and profitability in the sector.

The question needs to be asked - and that not only in view of the most recent crisis on the financial markets - whether the capital market orientated approach is the right one to pursue when determining the regulatory structure of the banking sector. The way the rating agencies, with their less than transparent methodologies, differentiate in their assessments between the various elements of the value chain in banking, the effects of market-orientated accounting practices in terms of high volatility in the reporting of results, and dysfunctional corporate governance all give rise to doubts about the advisability of such an orientation. The recent financial crisis has served only to reinforce these doubts. What consequences in terms of structural and regulatory models for the banking sector can be drawn from the current turbulences on the markets will be discussed in a further article in the next issue of this magazine.