Finance Group
German Savings Banks Association

Is Germany “overbanked”? Banking diversity must be preserved

- *There is no justification for criticism to the effect that the European and the German banking markets are “overbanked”*
- *The density of banks is much higher in comparable economies*
- *Within the European market, the German banking market is reasonably positioned*

With their business policy focused on the local population and local SMEs, Savings Banks and co-operative banks strengthen regional economies and growth. In order for Germany to continue to take advantage of the benefits of a decentralised financial sector, it is necessary to strengthen the framework and, in particular, to review the regulatory agenda.

Since 1990, the number of credit institutions operating in Germany has fallen by more than half to 1,888 institutions. This is a trend which has also emerged at European level over the past few years and which is expected to continue. This means that the German banking market continues to be highly competitive and efficient. Nevertheless, criticism that the banking markets in Germany and in the EU are “overbanked”, “oversized” or “overbranched” is often voiced. This allegation is unfounded:

1. In fact, the density of banks is much higher in comparable markets like the United States. There are approx. 5,850 credit institutions for a population of 326 million people in the United States. By contrast, there are only 3,154 institutions domiciled in the EU for a population of 512 million people. At the same time, US policymakers take better account of the diversity of the US banking market by applying a regulatory approach that is differentiated by size, business model and systemic importance. This approach should also be adopted at European level, e.g. within the context of a small and simple banking box.

Comparison of density of banks in the United States and in the European Union

Source: World Bank, DSGV

[1] *In the first half of 2017 alone, the number of Savings Banks decreased from 403 to 390 institutions, i.e. by 13 institutions.*
[2] *Cf. European Central Bank: Press release: ECB publishes consolidated banking data for end of March 2017, 16 August 2017.*

Published by: Deutscher Sparkassen- und Giroverband (DSGV) | Kommunikation und Medien | Charlottenstrasse 47 | 10117 Berlin |
Phone +49-30-20225-5155 | Fax +49-30-20225-5119 | www.dsgv.de

As of 08/2017

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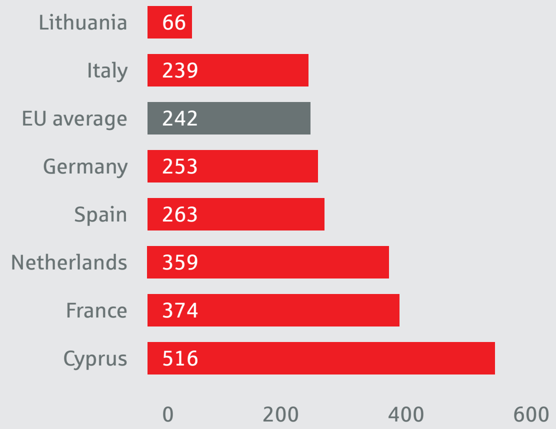
2. Relative to GDP, the German banking market falls within the European average. It would therefore be wrong to suggest that the market is either "oversized" or inflated. In fact, the balance sheet total of credit institutions in Germany is 2.5 times the amount of the national gross domestic product (GDP), and it is 2.4 times the amount of the EU countries' GDP. Ratios are much higher in countries like Ireland (4.3 times), the Netherlands (3.6 times) or France (3.7 times).

Ratio of the balance sheet total of banks to GDP in the EU (as a percentage)

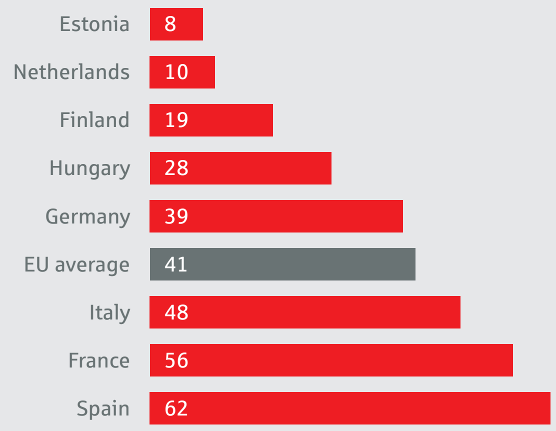


Source: World Bank, DSGV

3. What is needed first and foremost to provide banking services to business enterprises and society as a whole is employees. In Germany, the GDP generated per bank employee amounts to EUR 4.7 million, while the average GDP generated per bank employee in the EU amounts to EUR 4.6 million. Hence, Germany holds a mid-table position in the wide range of EU countries.

4. Consistently across all age groups, people continue to attach great importance to receiving personal advice, especially in Germany. This is the result of a representative survey carried out in July 2017 on behalf of the German Savings Banks Association (DSGV). There are 39 branches per 100,000 bank customers in Germany. On an EU average, there are 41 branches per 100,000 inhabitants. This shows that the German banking market is not "overbranched" either.

Bank branches per 100,000 adults in the EU (rounded figures)



Source: ECB, Eurostat, DSGV

Conclusions:
As consolidation is ongoing, Germany is certainly not "overbanked". When looking at the European and German banking markets, the adjustments made should be taken into account: The number of institutions, the balance sheet totals, the number of branches and the number of employees must therefore always be seen in relation to the GDP and the population. If this is done, the German banking market holds a solid mid-field position in Europe and does not need to shy away from comparison with the United States. In addition, the German banking market has been consolidating since 1990 – a trend which will certainly continue against the background of sustained low interest rates and digitalisation of the financial sector.

However, the decline in the number of credit institutions must also be seen as a warning sign. While the concentration within the German banking market is still far from being economically harmful, policymakers should design the regulatory framework in such a way as to preserve the banking market's diversity and regional focus. Regulation must provide adequate scope for action, in particular for low-risk credit institutions with a simple business model.

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