

BORDER CROSSING

Fleeing Domestic Woes, Foreign Banks Invade Germany

European banks are starting to take on German rivals on their home turf. For foreign banks in Germany, the keys to success are longevity and customer relations.

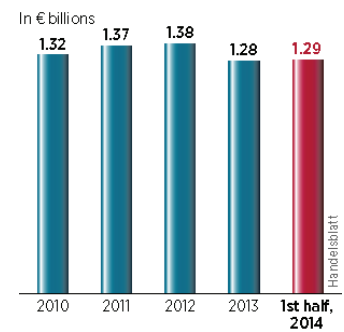
BY CHRISTOPHER CERMAK



Annika Falkengren, the chief executive officer of the Swedish bank SEB, has said Germany is a key expansion market. Source: Bloomberg

Fredrik Boheman is a patient Swedish banker. As chief executive of the German unit of Swedish bank SEB, Mr. Boheman has taken years to win the confidence and business of German companies. Convincing German executives to take money from foreigners is a tough sell.

“It is about proving that you’re worthy of the chance,” Mr. Boheman told Handelsblatt Global Edition. He said it was easy to get mundane banking business from German companies such as letters of credit or foreign exchange. But getting the most lucrative accounts - cash management - can take up to a decade, he said.

**CUTTING CREDIT**

Lending by German banks to domestic companies has fallen in past years.

Source: Statista

WHY IT MATTERS

The influx of foreign banks into Germany threatens to upend what has been a cozy world dominated by state-owned retail banks and savings and loans institutions.

FACTS

HSBC and BNP Paribas are each in the process of hiring 500 additional staff in Germany.

Lending to German companies fell about 10 percent year-over-year in June.

German companies have shunned foreign banks,

In Germany, a country that hasn't been all that hospitable to foreign banks, SEB is no longer the exception as a foreign rival.

France's BNP Paribas and Britain's HSBC are leading major expansions into Europe's largest economy, looking to expand lending to the German "Mittelstand" of small and medium-sized businesses.

For many, the chance to break into Europe's largest economy is simply too good to pass up, especially as their domestic markets struggle to emerge from the euro zone debt crisis.

The European rivals are seizing an opportunity to expand as many of Germany's own banks are restructuring to meet new capital requirements being imposed by regulators, said Neil Smith, an analyst in Düsseldorf with Bankhaus Lampe.

Commerzbank, Germany's second-largest bank as well as some regional banks that made bad loans in the financial crisis have trimmed lending in Germany and scaled back operations in other countries. Lending to German companies fell by 10 percent year-over-year in June, according to the Bundesbank.

Deutsche Bank's co-chief executive, Anshu Jain, speaking at a Handelsblatt banking conference last week, said his bank was the "last bank standing" among big banks in Germany, though his bank, too, has had to weather a series of financial scandals and raise capital this year. BNP and HSBC, which have also been rocked by financial scandals of their own, still have enough reserves to sustain their forays into Germany.

The biggest challenge for the foreign banks, however, is convincing German companies that they're really here to stay. That means committing resources to hire local talent, opening new German branches and having the patience to develop long-lasting relationships with clients. In effect it means learning the "language of the Mittelstand," said Reinhard Oldenburg, the head of R.O.I.-consult, a Berlin firm that advises small and medium-sized companies.

German firms have come to expect a bank to stand by them in bad times as well as good, according to Marc Tenbieg, the head of the German Association for Small- and Medium-sized Enterprises, the Deutscher Mittelstandsbund. Regional banks that are based in Germany are less likely to leave at the first sign of trouble.

Yet there does seem to be an increased willingness among German small companies to work with foreign banks. Many German exporters are investing directly abroad in manufacturing plants - a reason why

fearing they will leave in a crisis.

domestic investment in Germany has fallen as the economy has grown. This is where foreign banks with far-flung branches wield an edge over German regional banks.

But the battle is not to the swift. Mr. Smith said foreign banks should be prepared to lose money over the short term, and indeed that is happening. The heavy investment required for expansion has meant that HSBC, for example, saw the operating profit of its German operations drop in the first half of this year, even as the results for its corporate banking arm in Germany improved.

“The market in financial services for Mittelstand clients focused on Germany is hardly growing at all. At the same time it is highly competitive,” Mr. Schmitz, chief executive of HSBC Trinkaus & Burkhardt, the German subsidiary of HSBC, said in an emailed statement to the Handelsblatt Global Edition. Those that will win the fight must offer more than that, he said. Mr. Schmitz said he thinks HSBC’s combination of its international network and long-time presence in Germany will make the difference.

Francois Villeroy de Galhau, BNP’s chief operating officer, said cultural fluency in Germany was important. A key factor for small business clients in Germany, Mr. Villeroy de Galhau said, is sustainability, using “Nachhaltigkeit,” a German term that approximates the word. Basically, German clients want to know that BNP is here to stay in Germany.

“We are quite convincing in the fact that we are serious about Germany,” he said.

Persistence paid off for Swedish bank SEB.

Mr. Boheman, the SEB Germany chief, said the bank’s operations started picked up markedly after the financial crisis of 2007-2008. SEB emerged relatively unscathed and expanded lending in Germany. The bank has added 180 new clients in the last four years, he said.

BNP Paribas and HSBC both announced plans last year for a major expansion in the German market, with each hiring 500 new staff. BNP plans to grow its revenue by nearly 50 percent by 2016 to €1.5 billion, from €1.1 billion in 2012, and said it wants to break into the top five German banks. Mr. Schmitz of HSBC Trinkaus has said his bank aims to become the largest international lender to the German Mittelstand.



British bank HSBC has spearheaded its German expansion through its HSBC Trinkaus & Burkhardt unit in Düsseldorf. Source: DPA

Other banks are pushing in too.

Spain's Banco Santander acquired the retail banking operations of Sweden's SEB in Germany in 2010, and has expressed interest in expanding into the corporate market as well. SEB, having jettisoned its retail banking operations, is focusing on its "strengths" on the corporate side, Mr. Boheman said.

The newcomers are prowling the German market for good bankers, said Henning Sander, who leads banking operations at the recruitment firm Hager Unternehmensberatung. Mr. Sander said he has seen a boom over the last 2 to 3 years from foreign banks that recognize they need local talent to survive. "A big fight has started for the best people," he said.

The banks are also looking to expand through acquisition.

BNP in August announced a deal to acquire a nearly 90-percent stake in DAB Bank, an online retail bank that will nearly double BNP's customer base in Germany to 1.4 million. Both BNP and Santander have been the subject of speculation that they might acquire at least a portion of Commerzbank, which remains 17-percent owned by the German government.

Mr. Villeroy de Galhau would not comment on any rumors, nor would he rule out acquisitions.

He insisted the bank's priority in Germany is "organic growth." Its first job over the past year has been to consolidate the 12 different businesses it already has in Germany into one firm. Britain's HSBC has a head-start, having a more established presence through HSBC Trinkaus.

Investors and locals are convinced the new foreign bankers are in Germany for the long term.

"You don't need to have a bank from Germany anymore," Mr. Tenbieg of the Mittelstand association said. "That means the competition will get tougher. This is something German banks also need to start heeding."

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