

Helaba **Volkswirtschaft**

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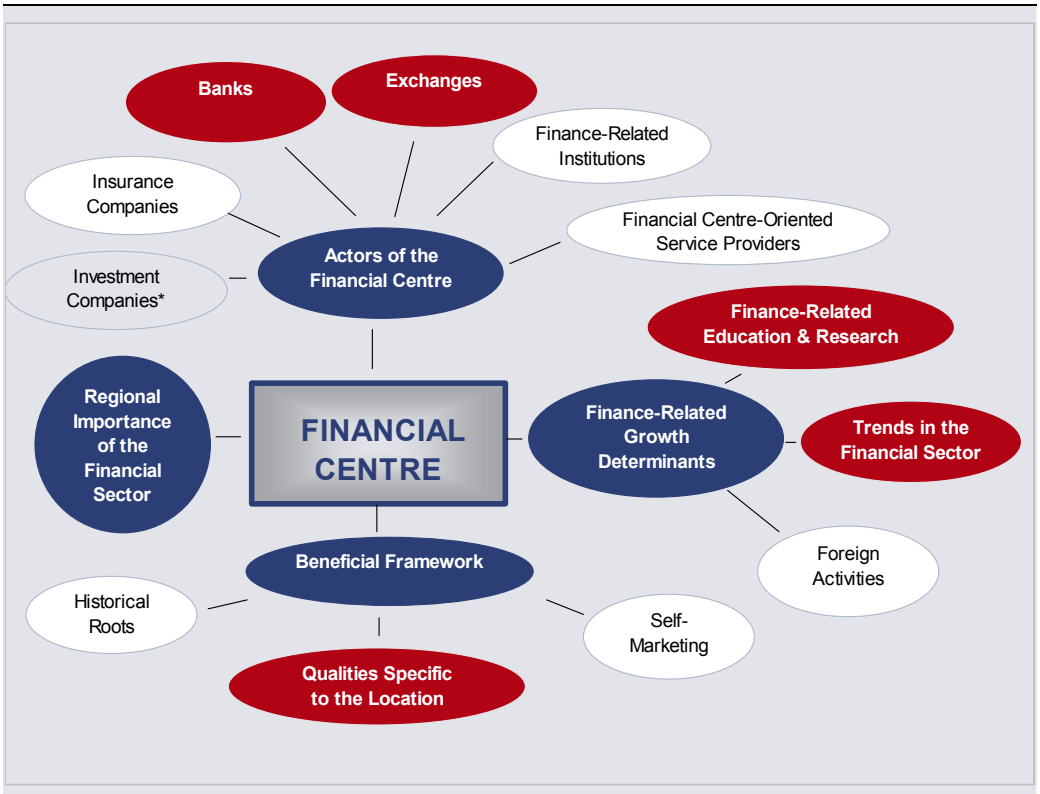
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Summary of the study "Frankfurt: The Financial Centre – A City on the Move"

We just published a study called "Finanzplatz Frankfurt – Ein Standort bewegt sich". The central question of the study is this: "Where does Frankfurt stand within the European financial world, and how will it develop in the future?" To provide a well-founded answer to this question, we define 12 characteristics in the study that make up the nature of a financial centre. All 12 criteria are important for the identity of a financial centre – when it comes to its sustained, successful positioning in international competition, five of these criteria are sufficient or indispensable.

Characteristics of a financial centre



The 12 criteria of a financial centre are: Regional Importance of the Financial Sector, Banks, Insurance Companies, Exchanges, Finance-Related Institutions, Financial Centre-Oriented Service Providers, Finance-Related Education & Research, Trends in the Financial Sector, Foreign Activities, Historical Roots, Qualities Specific to the Location, Self-Marketing.

* Investment Companies are not considered explicitly as a criterion, because they take a prominent position in the criterion Trends in the Financial Sector.

The five central criteria of the 12 are marked in red.

Source: Helaba Volkswirtschaft

Conclusion

The British financial centre holds a position of uncontested pre-eminence in Europe. On the European continent, Frankfurt and Paris are competing for leadership. Frankfurt as a financial centre of has good chances of capturing that leading position over the medium term and securing it over the long term, since it has at its disposal more changeable parameters than is the case for France's financial centre, with its centralistic imprint. The financial metropolis on the Main has already started to move. However, the steps that have been taken to date are not yet sufficient. The sustained success of Frankfurt as a financial centre requires both more engagement by its players to open up market potential, and political measures to create more favourable background conditions.

Assessing Europe's three great financial centres using the core criteria

Criterion	Frankfurt	London	Paris
Banks	😐	☺	☺
Exchanges	☺	☺	☺
Finance-Related Education & Research	😐	☺	☺
Trends in the Financial Sector	😐	☺	😐
Qualities Specific to the Location	☺	😐	😐

☺ shows that the financial centre is well-positioned in terms of its international competitiveness ☹ indicates that there are some shortcomings 😐 indicates a position in the middle.

Sources: Helaba Volkswirtschaft, Hessen Agentur

- A comparison of Europe's three great financial centres using the five essential qualities of a financial city – Banks, Exchanges, Finance-Related Education & research, Trends in the Financial Sector, Qualities Specific to the Location – reveals **London's pre-eminent position**. The British financial centre receives the highest mark in four out of the five categories. Only the Qualities Specific to the Location receive a middling grade because of the expensive commercial real estate and the high cost of living, as well as the state of the public infrastructure.
- Although **Frankfurt and Paris** do not play in the same league as **London**, they are at least its **equal in some areas** – e.g., with respect to the Exchanges – or even better positioned, as in the case of Frankfurt when it comes to Qualities Specific to the Location. The good infrastructure of the city on the Main, combined with short distances and the relatively inexpensive commercial real estate and low cost of living tend to make up for the relatively high corporate taxation in Germany.

Because London as a financial centre clearly holds the pre-eminent position, the focus of the following discussion will be on a **comparison of the German and French financial centres**. Looking at the five factors of success for a financial sector, we find two equal scores, with Paris ahead in two other areas and Frankfurt in one:

- With the Deutsche Börse and Euronext, both **Frankfurt and Paris** have at their disposal an **important, highly competitive Exchange.**[1] In terms of market capitalization, Deutsche Börse, located in Frankfurt, is at the very top in Europe – in spite of the competition within Germany from regional stock exchanges. Moreover, Euronext is a European multi-country stock exchange; when it comes to trading in derivatives, Euronext and London's LIFFE compete with the German-Swiss futures and options exchange Eurex.

- In terms of the **Trends in the Financial Sector**, **Frankfurt and Paris range in the middle**. Often times, newer currents in financial markets cannot be fully implemented because of the legal and regulatory regime. The financial centres on the European continent have different emphases: while in Germany the market for credit risk transfer is further along, France already has REITs and a more dynamic investment sector. International private equity and hedge fund companies are doing extensive business in both countries, although they are currently paying special attention to the German market.

- The **banking centre Paris** is **well-positioned** internationally, given the centrality and high profitability of its top institutions, while **Frankfurt banks** – like the sector as a whole in Germany – range only **in the middle** in this category. One must bear in mind the different national starting positions for the banking sector. For example, Germany's economic situation weighed on the sector for years; by contrast, French banks were able to post better results against a backdrop of more positive basic conditions. The current economic revival in Germany is helping the recovery of domestic financial institutions, which are now able to achieve growth in earnings again.

- As a **Finance-Related Centre of Education & Research**, the German financial centre does **not yet possess the international renown** of its British and French competitors. **Frankfurt** has made progress, however, and it offers a growing intellectual infrastructure in the financial industry. With the House of Finance, the city on the Main is on the right track to strengthen its financial centre at the roots and promote its powers of innovation. At the same time, this strengthens another important growth determinant for a financial centre: Trends in the Financial Sector.

- When it comes to **Location-Specific Qualities, Frankfurt** has the **advantage** over its two competitors. While Frankfurt is well-positioned on most of these criteria, **Paris** ranges only **in the middle**. The relatively expensive commercial real estate and high cost of living in the French capital are factors that are difficult to influence. The relatively unfavourable corporate taxation at the German financial centre could be rectified, while Paris has a need for improvement with respect to the taxation of highly qualified personnel.

[1] Since the planned merger into NYSE Euronext is not expected to be completed until the end of the year, a status-quo examination of Deutsche Börse, Euronext, and London Stock Exchange is appropriate for a comparative analysis of the financial centres of Frankfurt, Paris, and London at this time.

Recommendations for political steps to strengthen the German financial centre

- To strengthen Germany as a financial centre internationally, the country should **divide the work of financial business by concentrating on thematic focal points** instead of engaging in domestic competition. The success of the German financial place is linked directly to the success of its centre on the Main – the only German financial centre of international scope. The task at hand is therefore to break down biases against a focus on Frankfurt and to arouse the awareness of the players to the point of achieving a **critical mass**.

- The network at the German financial centre could be intensified by having the national regulatory agency **BaFin** located **exclusively** in the city on the Main. This would create efficiency gains by concentrating all important German institutions of financial business in the city along with the ECB. Especially in times of the progressive spread of technology, proximity to the financial community and personal contacts provide added value.

- The city must continue along the path toward **intensifying Finance-Related Educational & Research** activities in order to enhance Frankfurt's reputation as a centre of financial knowledge and turn it into an internationally recognized centre of financial expertise. Not only does this make it possible to train top-notch financial specialists, it also increases the innovative dynamism on the ground. In that sense, this approach would provide a double boost to the long-term development opportunities of the German financial centre.

- There is need for **legislation** that will **help** current **Trends in the Financial Sector** to **succeed** in a timely manner. For one, existing legal frameworks must be made more competitive internationally – e.g., in the areas of investment funds, private equity and hedge funds – to ensure that German companies will have similar starting positions as their foreign competitors and make better use of the market potential that exists at home. For another, there needs to be a response with relevant legal regulations to new currents in the financial sector (for example, REITs) to secure market share early and be able to help shape the development. The more German laws pertaining to the financial marketplace open up to new trends, the greater will be the innovative strength that is unleashed at the German financial centre, and thus the more successful it will be.

- The tax framework in Frankfurt must also be improved. The goal is to reduce what is by international standards a high tax burden on companies, and to create **tax incentives** for highly qualified experts. After all, taxes are an important consideration for financial institutions and finance-oriented service providers and their employees in deciding where to locate.

"Last but not least," a **coordinated, Self-Confident Marketing campaign** is urgently needed for Frankfurt – as a synonym for the financial centre Germany as a whole. All players in the financial centre – from financial institutions to the Bundesbank and BaFin – must join forces and put their weight behind Frankfurt as a financial centre. For example, one concept for how the city can present itself that should be pursued is a comprehensive internet platform. With the help of an impressive external presentation, a wide audience at home and abroad can be made more aware of the promising prospects of Frankfurt as a financial centre. ■

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data is based on sources that we consider reliable , though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.