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Bank employment in Frankfurt – No need to panic

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As a result of the crisis, a very perceptible consolidation process in the German financial sector is underway. In many banks jobs are being shed to reduce costs. Although the financial centre of Frankfurt will not be able to resist this development completely, there are many factors that should militate against a drastic staff reduction in the local financial sector. As a consequence, it can be assumed that there will be a moderate adjustment process, which will be spread over many years. By the end of 2014, we anticipate that employment in the German financial centre will decline by around 2 % to approximately 73,000 banking staff. That would mean that there will most likely be a loss of around another 1,500 jobs in Frankfurt's bank towers and that the number of redundancies resulting from the crisis would only just top the 3,000 mark. This shows how well the financial centre of Frankfurt has come through the crisis, in particular when compared to other countries. Its significance as the German financial centre and as a European hub of financial supervision is growing. On the flipside of these opportunities for positioning itself in the international competition among financial centres are the risks of overregulation.

The banking world is undergoing a far-reaching transformation, triggered by the financial market crisis, which has now lasted for over five years. Business models are coming under scrutiny and, partly in view of tightened regulations, are being realigned. Aside from more rigorous equity and liquidity requirements in the scope of Basel III, continuing uncertainty on the markets and modest prospects for revenues have contributed to the fact that many financial institutions around the world feel compelled to modify their strategies and to carry out rationalisation. Concentrating on core business areas and refocusing on the home market are of particular importance in this adjustment process and are coupled with cutting back on overcapacity. In the investment banking segment, which was once so profitable, the pressure for consolidation, in view of a deteriorating market environment and stricter regulation, is particularly high. Meanwhile, the traditional lending business has suffered less in the crisis and is partly experiencing a renaissance.

In this regard, the historically important role that lending has played in Germany is currently an advantage. The German banking system has been less acutely affected by the severe downturn in investment banking than, for example, the British one has. Nevertheless, the adjustment processes in the domestic banking landscape have a long way to go to completion. Compared to the situation at the outbreak of the crisis in the summer of 2007, the German financial system is considered meanwhile to be more robust, according to the Bundesbank's Financial Stability Review.

Number of banks in Europe and Germany in decline

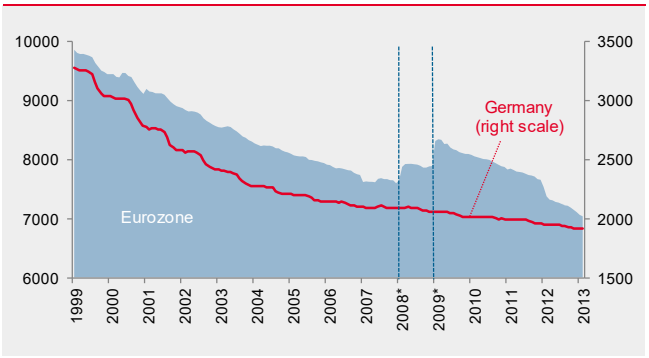
The upheaval in the financial world triggered by the crisis has accelerated the Europe-wide trend towards a shrinking number of banks. Despite an increasing number of members in the Eurozone, the number of banks has drastically fallen: since 1999 by almost 30 % to around 7,000 institutions at the beginning of 2013.[1] In the past few years, the pace of this decline has accelerated (-15 % since 2009 alone). In the German banking sector, the drop in the number of banks since 1999, at approximately 40 %, has been particularly marked.

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.

[1] The time series contains statistical breaks due to changes in the underlying definition or due to regulatory adjustments. The definition of a bank by the European Central Bank ("Monetary Financial Institution", or MFI) is narrower than that of the Deutsche Bundesbank.

Marked fall in number of banks in Eurozone

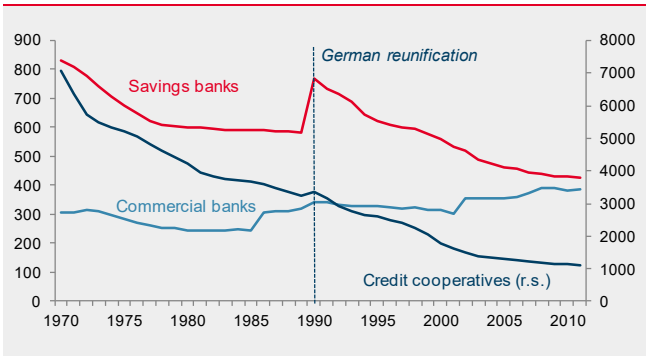
Number of banks



Sources: ECB, Helaba Research; * statistical breaks

Many mergers in German banking landscape

Number of banks according to type of institution

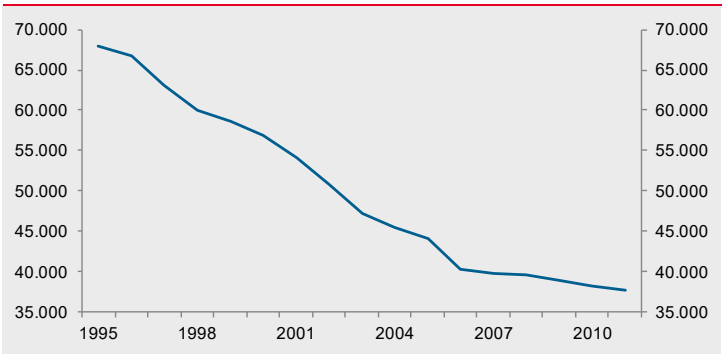


Sources: Deutsche Bundesbank, Helaba Research

Of the approximately 2,000 banks in Germany, about half are credit cooperatives (mutual banks). Savings banks and commercial banks make up a respective 20 % of the total. Numerous mergers, notably in the savings bank and mutual bank sector, are responsible for the long-term consolidation process in the German banking industry. These changes in Germany's banking scene also manifest themselves in the number of bank branches, which has seen a steady fall since the beginning of the 1990s down to a current total of under 38,000 (1995: around 68,000). This number still seems rather high in comparison with the 21,000 pharmacies and nearly 15,000 petrol stations across Germany.

Branch network being thinned out more and more

Number of branches* in Germany



Sources: Deutsche Bundesbank, Helaba Research; * including Postbank

More and more of the smaller branches in many localities, which are often only used by a dwindling number of customers, are being closed down for reasons of profitability. The widespread use of the internet to access banking services is a major factor that has contributed to streamlining the branch network in Germany. The significance of online banking is growing as a result of customers having more technical affinity and flexibility in changing banks or in having accounts at different banks. The intense competition in retail banking, which is also growing between banks that do not have their own branch network and even with providers from outside the industry (e.g. online payment systems of internet companies) is pushing the digitalisation of banking services. Thus, the trend towards a declining number of branches in Germany will continue, albeit that branches, with their role in offering a personal advisory service, will continue to remain indispensible in the future.

Frankfurt remains an attractive location for domestic and foreign banks

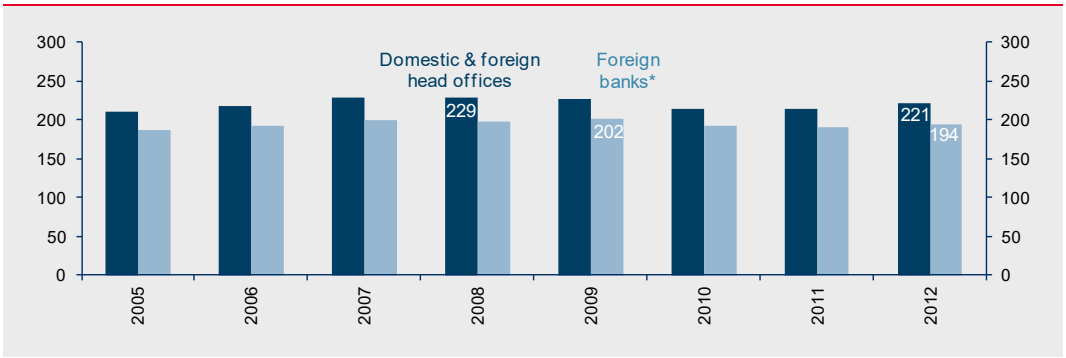
Frankfurt: moderate consolidation in number of banks

The Europe-wide and Germany-wide consolidation process of recent years has not been visible in the financial centre of Frankfurt. Before the onset of the global financial crisis, more and more new institutions moved to the Main and their number consistently grew. In terms of its number of banks, the German centre of finance stood firm in the face of the emerging global storm and is still an

attractive location for various players, both domestic and foreign. Although from the end of 2008 up to the end of 2011 the number of banks with a head office in Frankfurt fell by 14 to 215, in light of the worldwide turbulence it is only a moderate decline, however, which is even smaller in percentage terms than after the bursting of the dotcom bubble at the start of the millennium. In spite of the on-going consolidation process in the financial sector, the number of banks in Frankfurt increased in 2012 once again and had reached 221 by the end of the year, representing a decrease of only eight banks since before the worldwide crisis.

Number of banks in financial centre of Frankfurt on the increase already

Number of banks in Frankfurt (totals at year end)



Sources: Deutsche Bundesbank, Helaba Research; * Head Offices & Representative Offices of foreign banks

Good location for business, in other countries as well

Many international players have got the German market in their sights and support cross-border trade finance in their home country, for which having a local presence is particularly beneficial. Furthermore, many foreign banks are looking to fill a niche in a highly competitive market by e.g. offering tailor-made financial products to compatriots and companies from their countries located in Germany. What is more, thanks to its central location within Europe and its outstanding infrastructure, the German financial hub plays a fundamentally important role for business activities far beyond the limits of national borders. This role of Frankfurt as a hub is a vital asset in competition with other centres. For banks from other continents, the Main metropolis is a perfectly suited location from which to conduct all their business activities across the whole of continental Europe.

Strong presence of foreign banks

The refocusing of foreign banks due to the crisis, resulting from adjustments to capacities and a redefinition of business models, has naturally left its mark on the Frankfurt financial centre, too. However, with the latest total of head offices and representative offices of foreign institutions from around 40 different countries standing at 194, Frankfurt continues to boast an impressive number of international players – hardly any fewer than at its peak (around 200 foreign banks). Despite the cautious approach of internationally active banks around the world, even foreign institutions set up new operating branches in Frankfurt last year, which reflects a long-term, strategic decision (end of year total: 156 foreign head offices). This development was accompanied by a slight fall in the number of representative offices (most recently 38). Frankfurt remains an important financial centre with potential for business and numerous qualities as a location, embedded in the renowned largest economy in Europe.

Frankfurt clearly leading the pack in the German financial sector

The concentration of the German banking sector in its core on the Main is one factor that has contributed to the number of banks in Frankfurt having grown for years, bucking the trend across Germany and Europe, as well as to the moderate nature of the consolidation process. Before they make radical adjustments in the German financial centre, banks often first make cuts in other locations or bundle operations into the headquarters, which in many cases are on the Main.

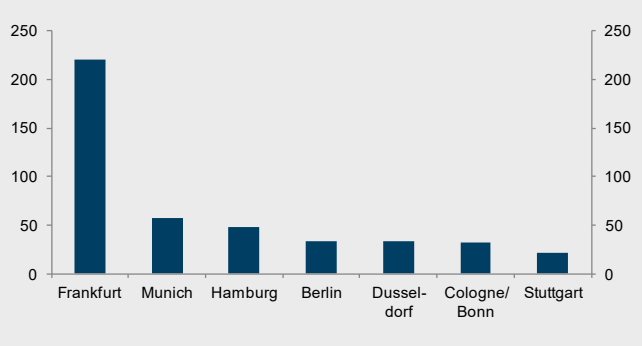
The contrast with other domestic financial centres demonstrates the focus on Frankfurt: as a banking location, the Main metropolis does not really have any serious rivals in Germany. A wide range

Frankfurt the clear front-runner in number of banks

of indicators shows that Frankfurt is the undisputed frontrunner in the German financial sector. For example, in terms of the number of banks, Frankfurt is clearly in pole position. Munich and Hamburg, with 60 and around 50 banks respectively at the end of 2011, are a long way behind. Berlin, Dusseldorf and the Cologne/Bonn region counted approximately 30 banks each, Stuttgart around 20. Apart from these, many other credit institutions were distributed across all of Germany.

Frankfurt the undisputed number 1 …

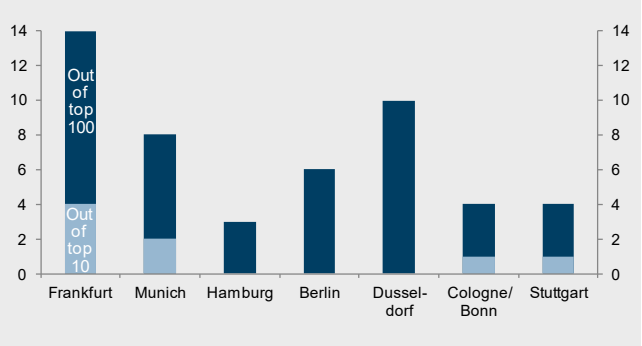
Number of banks in German cities at end of 2011



Sources: Deutsche Bundesbank, Helaba Research

… with Munich and Dusseldorf following far behind

Number of banks of the top 100 or top 10 by city at end of 2011

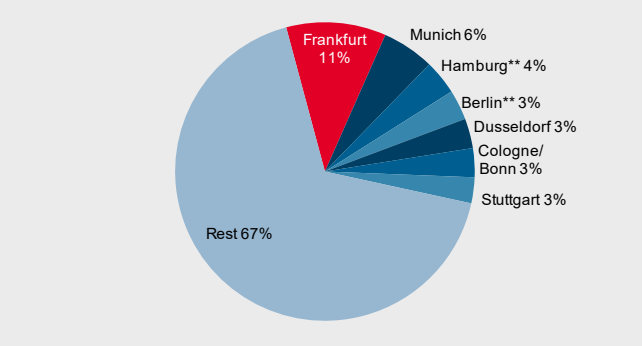


Sources: Die Bank, Helaba Research

The distribution of the largest banks in Germany across individual cities in terms of their balance sheet totals confirms the pre-eminence of Frankfurt, but also shows another ranking of regional locations: at the end of 2011, fourteen of the top 100 and four of the top 10 banks were headquartered on the Main. Dusseldorf ranked in second place among the top 100 at that time, Munich in third place and Berlin in fourth (ten, eight and six headquarters, respectively). Cologne/Bonn and Stuttgart both counted four of the largest head offices, Hamburg three. Of the top 10 banks, two had chosen Munich for their head office, Cologne/Bonn and Stuttgart both counted one each.

Focus of German financial sector employment…

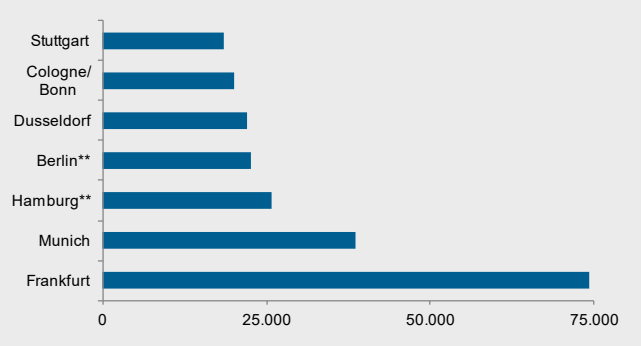
Proportion of German cities* of total German bank employment, mid 2012



Sources: German Federal Employment Agency, Helaba Research; * Federal Employment Agency districts, ** Federal state

… clearly in the financial centre of Frankfurt

Bank employees in German cities*, mid 2012



Sources: German Federal Employment Agency, Helaba Research; * Federal Employment Agency districts, ** Federal state

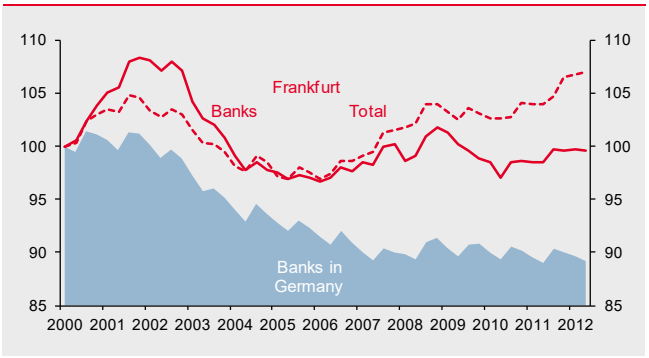
Frankfurt leads in terms of number of banks as well as bank employees. With almost 74,400 workers in the banking sector, it accounted for close to 11 % of the 685,000 total bank staff in Germany in the middle of 2012. This was followed by Munich and Hamburg, with a share of roughly 6 % and 4 %, respectively; Berlin, Dusseldorf, Cologne/Bonn and Stuttgart took 3 % each. The lion's share of staff in the banking industry is distributed among various smaller towns and localities.

Bank employment in Frankfurt robust over recent years

Consolidation due to the crisis has been noticeable in Germany. Many banks are reducing staff to cut costs. But what has been the impact on the financial centre of Frankfurt in particular?

Frankfurt banks bucking the German trend

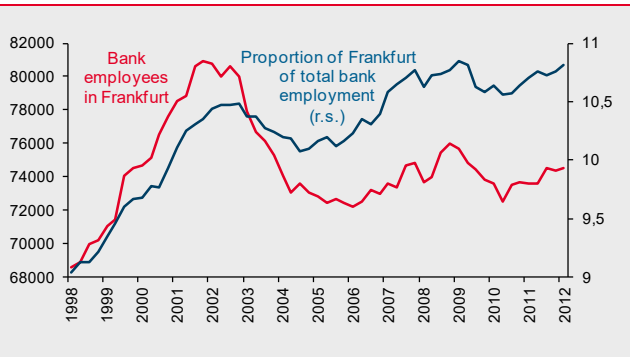
Employees subject to social security contributions, 2000 = 100



Sources: Deutsche Bundesbank, Helaba Research

Bank employment increasingly focused on Frankfurt

Number %



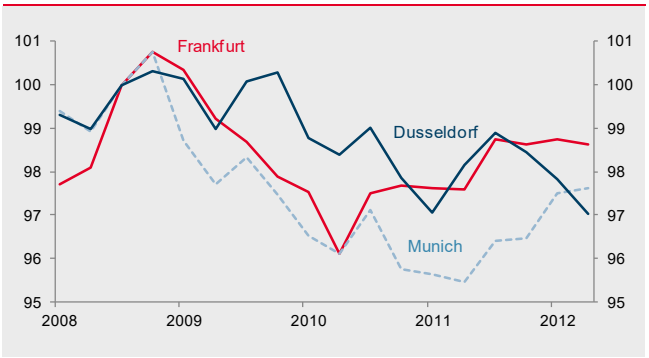
Sources: Deutsche Bundesbank, Helaba Research

Only 2 % fewer employees than before the crisis

Employment in the Frankfurt financial centre has been subject to a different development than that in Germany as a whole: instead of the downward nationwide trend seen in recent years, employment in the banking sector in the German financial centre has reacted rather more cyclically in nature. Whilst it has suffered a constant year-on-year decline amounting to 13 % since the bursting of the dotcom bubble at the beginning of the millennium across all of Germany (-98,000 jobs since the peak of 2000/2001), in Frankfurt it is around 8 % lower today (-6,500 jobs). In contrast to the rest of Germany, Frankfurt's banks hired more workers between 2006 and 2008 – a growth of 5 % to about 76,000. With the outbreak of the global financial crisis this trend was reversed and banking sector employment on the Main had fallen by nearly the same amount, to 72,500 by the middle of 2010. But then there was yet another turnaround: by the autumn of 2011, virtually 2,000 new jobs had been created in Frankfurt's bank towers. Since then, employment in local banks has oscillated between around 74,400 to 74,500 staff. Thus, in the final analysis, Frankfurt has so far only lost 2 % of its employees in the banking sector as a consequence of the global financial market crisis (most recently around 1,600 fewer jobs than at the end of 2008). The reason for this could very well be that, in times of crisis, jobs are pooled in the head offices on the Main.

Turnaround in Frankfurt and Munich, too

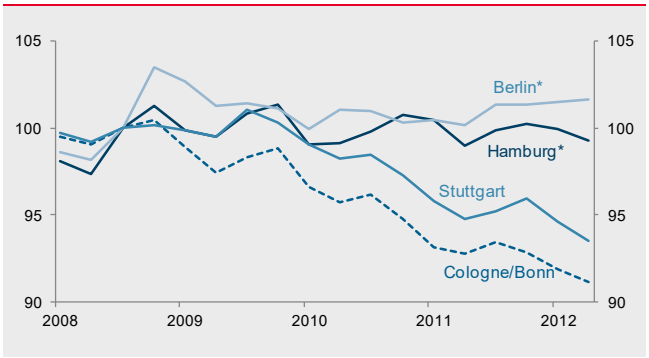
Bank employment in German Federal employment agency districts, September 2008 = 100



Sources: German Federal Employment Agency, Helaba Research

Significant job cuts in Cologne/Bonn and Stuttgart

Bank employment in German Federal employment agency districts, September 2008 = 100



Sources: German Federal Employment Agency, Helaba Research; * Federal state

Increased centralisation during the crisis

Banks in other locations in Germany have continuously and noticeably cut back their staff in recent years, with the result that Frankfurt's share of the total employment in the banking industry has almost reached the 11 % mark – an all-time high. Hence, the concentration of banking employment in the financial centre of Frankfurt has continued to grow during the crisis. The only places where there has been a similar development as in Frankfurt were in Munich and Berlin and it just about swung into positive territory there in the course of 2011; Hamburg saw a sideways movement. In the other larger cities, there was a trend towards shrinking employment in the banking sector from the end of 2008 until the middle of 2012. Job cuts were particularly acute in the regions of Cologne/Bonn and Stuttgart (-9 % and -7 %, respectively). In all large cities together (without Frank-

furt), around 6,300 or 4 % of jobs in banks were lost up to the summer of 2012. In addition, banks have reviewed their branch concepts and diluted their staff capacities across Germany as a whole. This has led to an increasing concentration of bank employment in the German financial centre. In this way, the focus is being shifted more and more to Frankfurt – its significance as the German banking centre is growing, especially in these difficult times.

Employment correction more moderate than in London

Uncertainty stokes fears of job cuts

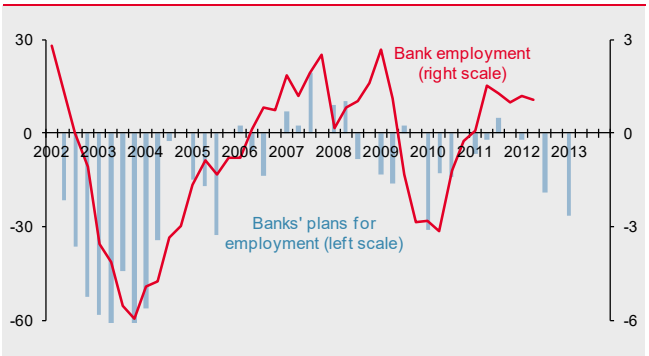
In view of the most recent horror stories about redundancies in the global financial sector, a feeling of disillusionment and job insecurity has spread among Frankfurt's bankers, too. This uncertainty is reflected by the financial media. It is not uncommon for large numbers of job losses in banks to be communicated without often specifying the timing of these cuts and the ways in which they would affect different locations. Many of these new stories also relate to institutions that are located in Frankfurt and, overall, this suggests that there will be a reduction in employment in the German financial centre.

Sentiment indicators signal decline in banking sector employment

The survey-based IHK (Chamber of Industry and Commerce) Employment Indicator for Frankfurt banks which, when taking a slight lead factor into consideration, has hitherto displayed a strong correlation with actual bank employment in the Main metropolis, also points to this conclusion. In the most recent survey at the beginning of this year, two thirds of the participating Frankfurt banks stated their assumption that domestic employment would remain steady in the coming months. Around one third of surveyed banks indicated that they plan to make redundancies. In addition to this, there were even some banks that wanted to hire new employees (in the meantime, however, less than 5 %). Therefore, the overall indicator for the personnel planning of Frankfurt's banks extrapolated from these results has fallen further into negative territory.

Frankfurt banks 2013: Plans for redundancies…

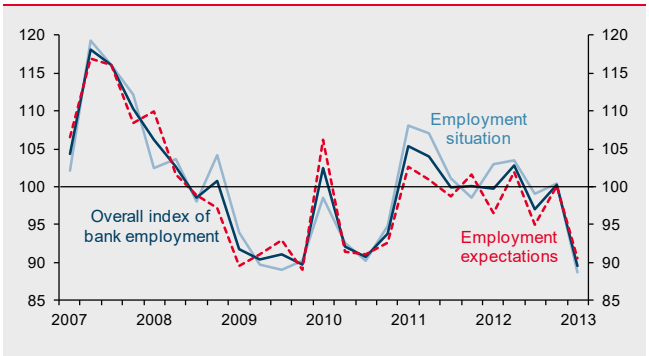
IHK survey results — % yoy



Sources: IHK, Deutsche Bundesbank, Helaba Research

… and employment indicator falls

Subcomponent of CFS Financial Centre Index for banks



Sources: CFS, Helaba Research

The Financial Centre Indicator of the Center for Financial Studies (CFS) in Frankfurt has, in the last few years, shown a sideways tendency in terms of employment development in banks, hovering around the 100 index point mark, which indicates unchanged employment levels. However, recently this sentiment indicator has dropped dramatically. Banks' assessment of the job situation in the final quarter of 2012 as well as employment expectations for the first quarter of 2013 were considerably worse. In the case of the CFS indicator it is important to note that, despite the focus being on the Main metropolis, those surveyed are partly from other locations in Germany (approximately 80 % are banks in Frankfurt). Both surveys, from the IHK and CFS, underpin the prospect of a job correction; but they are more like a good snapshot of the sentiment in the banking centre rather than an early indicator of what will happen a long time in the future.

Redundancies in banks cushioned

The question as to how badly Frankfurt in particular will be affected by the downsizing depends on a number of different factors. Even Frankfurt will most probably not be able to completely escape the noticeable pressures resulting from the crisis. On the other hand, however, there are some

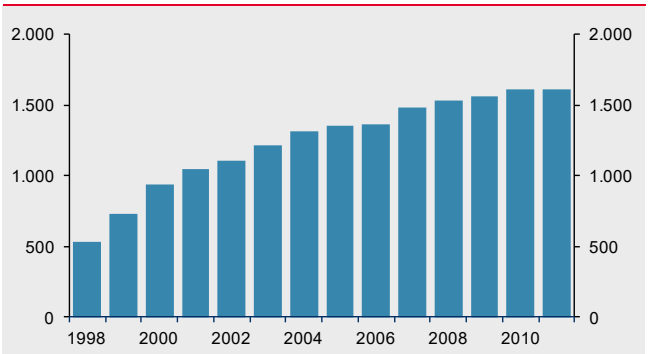
factors that may ease the burden for the job market in Frankfurt's financial sector: consolidation will continue to be accompanied by an increased focus on the leading German financial centre. Consequently, the fall in banking sector employment in Frankfurt may ultimately end up being smaller than in the rest of Germany. Moreover, in the local head offices there is currently a greater need for highly qualified specialists due to increasingly tighter regulations, for example in risk management. In reaction to the stronger and more demanding regulatory framework, many banks are looking for qualified experts. However, there are additional costs for the banks associated with these new staff and they will not have any immediate impact on revenues.

Significant demand for staff at central bank

Simultaneously, Frankfurt is going to be sharpening its profile as a European centre for supervision in the spring of 2014 – with positive effects in the long term. Apart from enhancing its image on an international level, the creation of a unified banking supervisory authority under the umbrella of the European Central Bank (ECB) will also mean the recruitment of further staff. At the moment, there are still heated discussions about how central European and national banking supervision will be allocated, so that it is hard to estimate what the exact personnel requirement in Frankfurt will be in the end. At the beginning, though, it can be assumed that many hundreds of new staff will be recruited, in a similar way to when the central bank began its work at the end of the 90s with around 500 employees in Frankfurt. As the years go by, it is likely that the workforce will be further increased, as the history of the ECB and other EU institutions suggests. There is even talk about more than doubling the current staff numbers of 1,600 in the long term. With the significance of the ECB growing steadily, the motivation for commercial banks to have an office nearby will similarly increase. Therefore, the range of jobs in the local financial sector, which already offers broad opportunities with a variety of diverse and important players anyway, will expand, thereby contributing to stabilising the total number of employees.

ECB grows constantly, now clearly due to new role

Number of employees in Frankfurt



Sources: ECB, Helaba Research

Employment dynamics lessened – upturn in 2013

% yoy % yoy



Sources: Macrobond, Helaba Research; * Gross domestic product

Besides this, Frankfurt's limited involvement in investment banking, which has come under massive pressure and is now significantly decimated, will be a boon to the city. The shrinking of this business unit mainly affects banks' London offices, even at German banks. On the other hand, Frankfurt's banks, with their traditionally important lending operations in Germany, have still got plenty to do. This is not least due to the fact that the German economy has continued to see above-average growth rates (growth forecast 2013: around 1 %, in contrast to stagnation in the Eurozone). For this reason, the labour market in the whole of Germany should gain traction if the economy picks up over the course of the year. The German financial centre, embedded in a key international economy, is able to benefit significantly from a comparatively good economic environment, the high competitiveness of German companies and the resulting business opportunities which they open up.

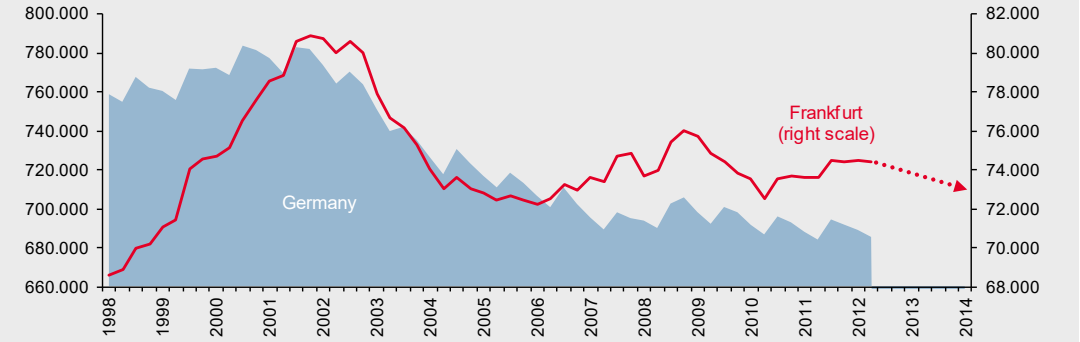
Adjustment process over many years

All of this will mitigate the downsizing as a result of consolidation in the financial centre of Frankfurt and the cost cutting measures announced recently by many banks testify to the fact that it is imminent. However, this is related to adjustment processes that have been going on for many years, for

example due to employment guarantees. The unavoidable staff cutbacks will be carried out in consultation with works councils and unions in order to make them as socially acceptable as possible and other levers will be used to reduce personnel costs (e.g. making working time more flexible or limiting salary increases or bonuses). Presumably, German banks want to avoid the mistakes they made in the period after the bursting of the dotcom bubble when they had to make many staff redundant, only to need them again soon afterwards.

Moderate staff redundancies in Frankfurt to around 73,000 bank employees by end of 2014

Number of bank employees



Sources: Deutsche Bundesbank, Helaba Research

Limited redundancies in Frankfurt, …

By the end of 2014, we expect a reduction in staff levels in the German financial centre of around 2 % to about 73,000 bank employees. The bottom line would see approximately another 1,500 jobs being lost in Frankfurt's bank towers and this would mean staff reductions due to the crisis would only have fallen by just over 3,000 since 2008. Though a very painful experience for the individuals concerned, in sum it would, however, represent a rather moderate response by Frankfurt's job market to the global financial crisis. In Germany as a whole, it can be assumed that there will be more job cuts, since the thinning out of the nationwide branch networks in favour of the use of online banking services will continue and, in addition, a number of banks outside of Frankfurt have significant cost-cutting programmes in the pipeline. In this respect, the trend towards a decline in financial sector employment, specifically in Frankfurt, should be less pronounced than in Germany as a whole.

… marked in London

The development of employment shows how well the German financial centre has come through the crisis, especially when compared on an international basis. In London, the wave of redundancies is considerably deeper, which is mainly related to its role as the European hub for investment banking and higher labour costs on the Thames contribute to this in no small measure. Even if British employment law allows for more immediate redundancies, the end is still a long way off. According to estimates by the Centre for Economic and Business Research, the number of workers in London's financial sector had already fallen by 30 % between 2007 and 2012 to around 250,000 and could well fall by another 5 % in 2013/2014 (a total of almost -118,000 jobs). Therefore, as a result of the crisis, more drastic job cuts can be expected in the British financial centre than in the German one, and this is even taking into account the various ranges of the forecasts.

The job market situation is better in the leading Asian financial centres, such as Hong Kong or Singapore, and they continue to exibit dynamic growth in the number of financial players. This is yet another reason for the German financial centre not to rest on its laurels, but rather to use its potential and develop. Frankfurt is growing in its importance as the German financial centre and as a European centre for financial supervision. On the flipside of these opportunities for positioning itself in the international competition among financial centres are the risks of overregulation. ■