

# ***Savings Banks and Credit Cooperatives in Germany: Competitors in the Same Markets for 150 Years?***

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*This article intend to retrace the general developments in the history of the savings banks and credit cooperatives in the German Reich and the Federal Republic of Germany. In the course of about 150 years savings banks and credit cooperatives have become competitors for the same clientele with similar product and similar problems, compared to the commercial banks and the direct banks. Today, in the Federal Republic of Germany both groups are about to undergo major structural changes at central and regional level; in Europe they have been preparing for cooperation within the group.*

## **1. Introduction**

The German banking system as we still know it today goes back to the 19<sup>th</sup> century. It is referred to, among other things, as a three-pillar model (*Drei-Säulen-Modell*). This characterization is associated with attributes such as “stability” and “continuity”, but also with “inflexibility” and a “lack of willingness to adapt”. Even if the basic structure of the three-pillar model continues to be in existence, a significant dynamic has taken place within the three individual pillars (private commercial banks, savings banks (*Sparkassen*), and credit cooperatives (*Kreditgenossenschaften*) or cooperative banks (*Genossenschaftsbanken*)), a dynamic that was particularly strong in the last decades.<sup>1</sup> While the number of private

<sup>1</sup> Hans-Joachim Strüder, *Welcome Address*, in: *Der wissenschaftliche Beirat des Instituts für bankhistorische Forschung* (ed.), *Geschichte und Perspektiven des Drei-Säulen-Modells der deutschen Kreditwirtschaft*, Stuttgart 2007, pp. 7ff. – The following pages intend to retrace the general developments in the history of the savings banks and credit cooperatives in the German Reich and the Federal Republic of Germany, from the beginnings to the present. The paper was completed before the general financial crisis in autumn 2008 and kindly translated by Dr Brian Cooper of the Max Planck Institute for Research on Collective Goods in Bonn.

commercial banks did remain relatively constant, significant changes occurred in the guise of mergers, such as the takeover of the Hypo Vereinsbank by Unicredito; other banks, such as the Industriekreditbank in Düsseldorf, went through a severe crisis. We also witnessed a number of mergers within the savings bank sector and, at their more central level, in the federal state banks (*Landesbanken*); for instance, the state bank of the State of Baden-Württemberg took over three public institutions in 1999 and, six years later, the state bank of Rhineland-Palatinate. The respective crises of the state bank of Saxony (Sächsische Landesbank) and the West German state bank (Westdeutsche Landesbank) have yet to be overcome. The number of credit cooperatives dropped to almost half between 1994 and 2004, from 2,166 to 1,336, while, on the other hand, the number of savings banks dropped by only 27 per cent, from 657 in 1994 to 477 in 2004. After the German reunification, a powerful consolidation process soon began within all three pillars. This trend has continued in all banks, and particularly so in the case of the credit cooperatives. In the last decades, the decline in the number of banks in Germany has been very prominent, compared to other countries. Even so, the number of bank branches in Germany today is rather higher than the international average, which is why Germany is considered by some to be “overbanked”. This is particularly valid for the number of rival savings bank and credit cooperative branches that are in intense local competition with each other.<sup>2</sup> Today, the savings banks and state banks are still the undisputed market leaders with regard to private and corporate clients. In the last few years, they were able to expand their position in the small and medium-sized business sector, although the credit cooperatives did catch up substantially. One could say that today the credit accorded to medium-sized businesses and craftsmen comes almost exclusively from savings banks and credit cooperatives.<sup>3</sup>

<sup>2</sup> Hans-Peter Burghof and Galia Kondova, *Konsolidierung und Wettbewerb – das Drei-Säulen-Modell nach dem Zweiten Weltkrieg*, in: *Der wissenschaftliche Beirat des Instituts für bankhistorische Forschung* (ed.), *Geschichte und Perspektiven des Drei-Säulen-Modells der deutschen Kreditwirtschaft*, (Stuttgart 2007), pp. 41-55; here: pp. 45ff.

<sup>3</sup> Sparkassen-Finanzgruppe, Deutscher Sparkassen- und Giroverband: *Märkte 2006*, pp. 20 and 77; and Sparkassen-Finanzgruppe, Deutscher Sparkassen- und Giroverband: *Geschäftszahlen*, p. 9.

Today, the three pillars of the banking system are competitors in almost all market segments. The decisive difference between the 19<sup>th</sup> century and today is “that back then, the markets of the different types of institution were, to a large extent, segmented, so that each type of bank had its own customer profile”, following the high segmentation pattern within society.<sup>4</sup> The typical ideal at the end of the 19<sup>th</sup> century was therefore usually a ratio of one consumer to one provider, while a customer today can choose between several providers. The structural changes in the German credit system that have led to this competitive situation happened gradually rather than radically.

## **2. From the Beginnings to the Banking Crisis**

Until the 19<sup>th</sup> century, there was no uniform German banking system; instead, regional and local bank groups proliferated, which was also a result of the territorial fragmentation in Germany. The institutions in existence until then had, for the most part, divided up their tasks amongst the individual groups, so that an overlap of business interests barely occurred. In the first half of the 19<sup>th</sup> century, private banks had emerged from the group of merchant bankers and court merchants (*Hoffaktoren*) as a profession in its own right, active primarily in government bonds and, to a lesser degree, in financing both commercial activity and the initial period of industrialisation. The joint stock banks, of which the first, the Bayerische Hypotheken- und Wechselbank, was founded in 1835, only began to become more important during the last third of the 19<sup>th</sup> century. The principal function of the savings banks, whose precursors go back to the last third of the 18<sup>th</sup> century (in 1778, the *Ersparungskasse* of the *Allgemeine Versorgungsanstalt* came into being in Hamburg), was

<sup>4</sup> Günther Ashauer, *Von der Ersparungscasse zu der Sparkassen-Finanzgruppe*, (Stuttgart 1991), p. 186 (quote) and Hans Pohl, ‘Die Institute der Sparkassenorganisation als Wettbewerber im deutschen Bankensystem’, in: Pohl, *Wirtschaft, Unternehmen, Kreditwesen, soziale Probleme. Ausgewählte Aufsätze (Vierteljahrsschrift für Sozial- und Wirtschaftsgeschichte, Beiheft 178, 2)*, (Stuttgart 2005), pp. 1156-1186; here: p. 1157.

initially to collect the savings of people from poorer social strata; they were secure money-collecting agencies for emergency situations that could afflict the poor, for there was no such thing as state-provided social security in case of illness, unemployment, disability or old age. In the mid-19<sup>th</sup> century, two further groups emerged: the commercial credit cooperatives (*gewerbliche Kreditgenossenschaften*), a brainchild of Hermann Schulze from Delitzsch, hence Schulze-Delitzsch (these were “advance payment associations” (*Vorschussvereine*) since 1850 on the basis of joint and several liability (*Solidarhaftung*) and self-help; and the rural credit cooperatives (*ländliche Kreditgenossenschaften*), which go back to Friedrich Wilhelm Raiffeisen (the *Lammersfelder Hilfsverein zur Unterstützung unbemittelter Landwirte* in 1849, an association in aid of less affluent farmers); however, these groups did not have any significant economic impact until the last third of the 19<sup>th</sup> century.<sup>5</sup>

The number of cooperatives increased dramatically when, towards the end of the 19<sup>th</sup> century, workers were able to unite more freely, a situation facilitated in large part by the abolition of Bismarck’s law against socialists, the *Sozialistengesetz*, in 1890, and the introduction of the *Reichsgenossenschaftsgesetz* in 1889 (limited liability of members in lieu of joint and several liability, and credit financing exclusively to members).<sup>6</sup> Even so, there was little competition between the credit cooperatives and the savings banks. With regard to collecting smaller savings amounts, the savings banks had a certain monopoly, while the cooperatives financed themselves through the fees of their members, who were active in the craft and agricultural sectors. On the assets side, there was even something of a division of labour between these two groups, whose internal structure was not yet distinctly defined; the savings banks concentrated mainly on long-term real-estate credit, while the credit cooperatives made short-term personal loans the focus of

<sup>5</sup> Cf. Hans Pohl, ‘Das deutsche Bankwesen (1806-1848)’, in: *Deutsche Bankengeschichte*, vol. 2, Frankfurt am Main 1982, pp. 13-142; here: pp. 124ff, and Pohl, *Institute*, pp. 1157 ff.

<sup>6</sup> Cf. Erwin Hasselmann, *Geschichte der deutschen Konsumgenossenschaften*, (Hamburg 1971), p. 229; Hasselmann, *Von der Lebensmittelassociation zur Coop*, (Hamburg 1984), pp. 19 ff.

their business activity. The cooperatives were, for the most part, only able to grant short-term personal loans, the structure of their deposits being such that they could be revoked at short notice. In 1913, the last year of peace before World War One, the credit cooperatives that formed under the umbrella of the *Allgemeiner Verband der deutschen Erwerbs- und Wirtschaftsgenossenschaften*, the General Association of Cooperatives, granted short-term credits worth over 1.3 billion mark, while the savings banks merely reached a figure of 625 million. In the Prussian savings banks, the proportion of personal loans fell from around 18% of the total interest-bearing asset capital in 1860 to around 3.5% in 1908. On the whole and in the long term, this practice of labour division with the credit cooperatives, in the area of personal credit, dramatically worsened the market position of the savings banks, not least in the promotion of medium-sized businesses. These "market shares", voluntarily given up by the savings banks, could only be reclaimed at great effort, once the *Reichsscheckgesetz* of 1908 accorded the savings banks the capacity to be the drawees of cheques (*passive Scheckfähigkeit*).<sup>7</sup>

Thus, while the cooperatives, at least until 1908, were more important in the personal credit sector, the savings banks concentrated on real-estate credit, expanding this business sector continuously. The significance of mortgage loans is also explained by the fact that Germany was going through a phase of rapid urbanisation all over the country, which meant that large cities began to develop as a result of growing industry and the concomitant influx of people and businesses. Major financial resources were thus required for housing. There was competition from the public-law land banks (*Bodenkreditinstitute*) and the rapidly expanding mortgage banks (*Hypothekenbanken*), but because progressive urbanisation created extremely high demand, all of the three banking

<sup>7</sup> Pohl, *Institute*, pp. 1158f, and Pohl, 'Die mittelständische Wirtschaft und ihre Finanzierungsprobleme bis zum Zweiten Weltkrieg', in: *Sparkasse* 8/83, pp. 301-305; here: p. 303; Manfred Pix, 'Der Personalkredit von den Anfängen bis 1908', in: Jürgen Mura (ed.), *Entwicklungslinien im Personalkreditgeschäft der Sparkassen*, (Stuttgart 1989), pp. 17-46; here: pp. 23ff.

groups involved in mortgages were successful in this sector. Indeed, the savings banks had expended almost 60% of their assets in mortgage loans in 1908. The intensity of competition between the savings banks and credit cooperatives, on the one hand, and bank groups such as private bankers and joint stock banks, on the other, was very low, although the latter did expand their deposit branches for capital accumulation.<sup>8</sup> Since the individual bank groups catered for different kinds of clientele – the savings banks were said to be the institutions providing for the low- and middle-income brackets as well as for workers, while the cooperatives covered the credit needs of farmers, craftsmen and small businessmen – it is legitimate to say that these two groups were limited and specialised, even when compared to the other credit institutions that were active in the same market. Since credit cooperatives and savings banks were strongly committed to operating locally – the principle of regionalism already applied to the savings banks – there was hardly any competition between both bank groups, and even within each respective group there was more solidarity than direct confrontation. “Hence, it is hardly possible to speak of intensive competition before and at the beginning of the Weimar Republic. Rather, the situation was one of a voluntary distribution of the work on hand. Moreover, any profit-making objectives that might have fostered rivalries were largely absent.”<sup>9</sup> For several reasons, this “truce” ended at the beginning of the 20<sup>th</sup> century. The savings banks viewed the use of the company name “Sparkasse” by credit cooperatives since 1903 very critically; they tried – and failed – to register the term legally for exclusive use in the context of the gilt-edged savings banks under public law. On 22 April 1918, the savings banks and central institutions of the cooperatives came to an agreement that the credit

<sup>8</sup> Pohl, *Institute*, p. 1159, and Ashauer, *Ersparungscasse*, pp. 186ff.

<sup>9</sup> Margarete Wagner-Braun, “Kreditgenossenschaften und Sparkassen im Wettbewerb während der Weimarer Republik”, in: *Beiträge zur Genossenschaftsgeschichte*, part 1 (= *Schriftenreihe zur Genossenschaftsgeschichte*, vol. 6), (Munich 2003), pp. 18-37; here: pp. 18ff, quote p. 19; and Karl Häuser, “Wettbewerb und Kooperation deutscher Banken 1918 bis 1945”, in: *Institut für bankhistorische Forschung* (ed.): *Cooperation and Competition of European banks since the middle of the 19th Century* (Bankhistorisches Archiv, Beiheft 26), Frankfurt am Main 1997, pp. 37-53, p. 40 and 38.

cooperatives would use the term “Sparkasse” only “if the possibility of confusion with public savings banks can be ruled out”.<sup>10</sup>

Since the savings banks had been granted the capacity to be the drawees of cheques in 1908, they were able to expand the cheque and giro transaction sectors, succeeding for the first time in conquering hitherto unknown sectors of activity that had until then been the territory of the commercial banks and credit cooperatives. Naturally, these two groups reacted by opposing this new development. Giro transactions, however, only became significant for the savings banks during the period of inflation. On the other hand, another field, the securities commission business (*Wertpapierkommissionsgeschäft*), in combination with custody business, went through a major revival, because the savings banks had been allowed, as early as 1909, to purchase gilt-edged securities for their clients. However, the breakthrough came as a result of the savings banks playing a major part in financing the first world war, when they became large war loan agents, taking charge of one quarter of all war loan subscriptions. The two giro transaction components – i.e., sight deposits (payable at short notice) and current account credits – became vital for the survival of savings banks as inflation progressed at the beginning of the 1920s. Due to further obstacles being done away with from 1921 onwards, and for good by 1924, the savings banks were practically universal banks. Business in the giro and securities sectors significantly strengthened their position. The same was true for the cooperatives, which had also survived inflation relatively well. Hence, from the mid-1920s onwards, there was serious conflict between the commercial banks and the savings banks and their two large central representative associations: the Centralverband des Deutschen Bank- und Bankiersgewerbes and the Deutscher Sparkassen- und Giroverband (DSGV). This conflict was also due to competition between savings banks and credit cooperatives, for the former were conquering more and more of the active sectors and the *clientele* of the other banks and hence also

<sup>10</sup> Ashauer, *Ersparungscasse*, p. 234, and Josef Hoffmann, *Deutsche Sparkasseneinheit*, complete reprint of the original 1931 edition, (tuttagart 1991), pp. 132ff (quote p. 135).

of the cooperatives. Besides a similar clientele and a partial overlap of business sectors, the two groups had in common that their primary objective was not to maximise profits like the private banks, but instead to prioritise the safeguarding of money investment and lending, albeit with the limitation of exclusivity to members in the case of the cooperatives. While the savings banks accepted minimal deposits and were obliged to grant minimal credit sums, which cost them a lot of money, the cooperatives, on the other hand, had to grant far riskier personal credits without security, and the profit objective was thus far more pronounced. All this led to increased rivalry, and the “sleepy-head competition” between the two institution groups became more and more a thing of the past, i.e., all providers initially remained passive, offering their products on the same market at the same price – only to move gradually towards active, dynamic competition later on. “The roughly 20,000 agricultural credit cooperatives, of which each one would have been the only village bank during the inter-war period – in a small, regional monopoly, now found themselves in a competitive situation that was entirely different from the branches of provincial and big banks of an average-sized town...” Hence, there were major differences in the market structure and, consequently, in the intensity of competition.<sup>11</sup>

At an organisational level, there were major differences between the savings banks and the credit cooperatives. With regard to liability, the former had competitive advantages, due to guarantor liability (*Gewährträgerhaftung*), i.e., the communities’ direct liability vis-à-vis the creditors, and eligibility (*Mündelsicherheit*) vis-à-vis the investors. For the savings banks, however, loans granted to communities frequently meant trouble, while the credit cooperatives had kept up the principle of joint and several liability of members – albeit limited to a maximum amount most of the time – and did not grant trustee security status. An additional advantage was provided by the fact that the cooperatives had to ensure a higher risk cushion from their own reserves, something the

<sup>11</sup> Häuser, *Wettbewerb*, p. 38, and Wagner-Braun, *Kreditgenossenschaften*, pp. 21ff; Ashauer, *Ersparungscasse*, pp. 186ff, 234.

savings banks did not have to do. That is why the cooperatives created guarantee funds at the association level, in order to avoid devastating consequences for the others in case one cooperative collapsed. For this reason, the savings banks had a far lower equity ratio than the cooperatives; after inflation (i.e., after 1923), it was at 4% of the balance sheet total for the savings banks, and at 16% for the credit cooperatives. Moreover, the savings banks were not obliged to distribute earnings, while the cooperatives had to pay dividends to their members. In terms of capital ownership and self-financing, the savings banks therefore enjoyed substantial competitive advantages over the credit cooperatives.<sup>12</sup>

During the Weimar era, changes occurred in two further areas: advertising and personnel policy. While cooperatives and savings banks had practically never advertised in the 19<sup>th</sup> and early 20<sup>th</sup> centuries, since profit maximisation was not their main concern, this changed from 1920 onwards, when the savings banks began to run coordinated advertising campaigns particularly for encouraging savings, giro and cheque transactions, and credit grants. Some slogans were: "Hier sparst du sicher" (translatable as "Here your savings are safe") and "Der Pfennig muss es bringen" ("The pfennig has to do it"). Since 1925, the *Weltspartag* (World Savings Day) was in existence, and premiums for saving money were promoted. On the other hand, despite occasionally running advertising campaigns (for "pfennig savings banks" or simply by placing advertisements), the credit cooperatives did not consider them to be decisive.

With regard to the personnel employed by the savings banks and the cooperatives, one can ascertain that until the early 20<sup>th</sup> century and in both bank groups, staff worked on a part-time or voluntary basis. This was possible due to everyday business being quite simple. From the beginning of the 20<sup>th</sup> century onwards, the savings banks began to offer apprenticeship schemes of their own, and by the 1920s, special committees in charge of apprenticeships and further training were in operation. The cooperatives began to take on trainees earlier, having introduced mandatory auditing. However, due to the fragmentation of

<sup>12</sup> Wagner-Braun, *Kreditgenossenschaften*, pp. 23f.

the cooperatives, a standardised organisation for apprenticeships and training was lacking. All the same, since 1904 the first *deutsche landwirtschaftliche Genossenschaftsschule* ("German agricultural cooperative school"), a central cooperative educational institution, had been in existence; and since 1913, a *Revisionsausbildungsanstalt* (auditor training school) and, even earlier, educational and training centres were in existence at state level. Both bank groups made efforts to intensify their work on apprenticeships and further education, and it can be said that savings banks had "an institutional advantage over cooperative banks because of their standardised education system".<sup>13</sup>

During the time of the Weimar Republic, in particular after 1924, mutual tolerance between savings banks and credit cooperatives thus ended as a result of increased competition in the banking sector; neither of these two groups was spared this competition, both having become universal banks. The savings banks were capable of expanding this business sector because of the possibilities of current-account and deposit transactions and the use of cheque and giro transactions, as well as the establishment of central giro institutions (*Girozentralen*). In doing so, they managed to secure much of the middle-class and medium-sized businesses as part of their clientele. For the cooperatives, this meant a loss of business sectors, clients and capital. During the initial stages, they had obviously misjudged the importance of giro transfers, for only in the 1920s did this significance become clear to them.<sup>14</sup> As early as 1914, the credit cooperatives had acknowledged that savings banks could introduce cheque and current-account transactions, in order to spread the use of cashless payments. From 1917 on, relations between the two groups' associations began to worsen. Complaints made to the Prussian Ministry of the Interior about savings bank interest policies were unsuccessful. This is why there were negotiations between the savings banks and the

<sup>13</sup> *Ibid.*, pp. 26ff (quote p. 29).

<sup>14</sup> *Ibid.*, pp. 29f, and Josef Wysocki, *Die „bankmäßige“ Entwicklung der Sparkassen (1908-1931)*, in: Jürgen Mura (ed.), *Die Entwicklung der Sparkassen zu Universalkreditinstituten*, Stuttgart 1987, pp. 36-46; here: pp. 37ff, as well as Hoffmann, *Sparkasseneinheit*, p. 134.

central institutions of the cooperatives, which ended in the agreement reached on 22 April 1918, as mentioned above. These guidelines should be seen as a preliminary stage to the competition agreement that was reached a decade later and contained the following rulings: 1. Mutual requests or complaints between savings banks and credit cooperatives should be negotiated on the basis of “amicable negotiations” (“gütliche Verhandlungen”), to be held by the responsible sub-associations; otherwise, the central institutions should intervene. 2. With regard to advertising, the savings banks had every right to refer to their trustee security status. 3. Public advertising should always be done “in a sophisticated fashion” (“in vornehmer Form”). 4. Different interest rates for savings and cheque transactions were “appropriate” (“angebracht”) and recommended to both groups. 5. There could be no objection to cheque transactions or cashless payments, nor to a trend of savings banks moving towards general bank business, in accordance with bank practices; however, no pressure should be exerted on anyone to open an account in a particular bank or branch. Central courts of arbitration, such as were desired by the savings banks, would not be instituted yet.<sup>15</sup>

While the balance sheet totals of both institutions rose steadily until 1919, the consequences of inflation mean that only the post-1924 developments can once again be legitimately compared. Even between this time and the Nazi era, the balance sheet totals rose, albeit slowly, and they were substantially higher in the case of the savings banks. After the inflation, the number of savings banks fell to 2,600, and in 1933 it was at 2,428. The number of credit cooperatives, on the other hand, initially rose after the inflation (the highest number in 1929 was 20,260), but it fell again to 19,318 in 1933, i.e., the number of savings banks fell by 18% during the Weimar Republic, and the number of credit cooperatives rose, on the other hand, by about 10%. The performance of the savings banks was therefore significantly higher than that of the credit cooperatives, even when we look at the individual branches, although it must be acknowledged that the savings banks naturally had

<sup>15</sup> Hoffmann, *Sparkasseneinheit*, pp. 134ff.

a far higher balance sheet in total than the credit cooperatives, but the difference between both was steadily decreasing. In terms of mere figures, many of the smallest credit cooperatives and a number of small and medium-sized savings banks were dominant at the end of the Weimar Republic.<sup>16</sup>

While prior to the huge inflation of 1919 the difference between the deposits made with savings banks and those made with credit cooperatives was considerable, this difference ended during inflation. Both groups were able to increase deposits after 1924, at least until the worldwide economic crisis, but the difference between deposits made with these two groups no longer revealed the earlier significant advantage on the part of the savings banks. This development also explains why the fight for markets became more severe between the two groups. The percentage that savings deposits represented in the balance sheet totals of savings banks and credit cooperatives was traditionally high in the case of the former, reaching up to 90%, and far less in the case of the latter, even though it did also increase until the worldwide economic crisis. This is also due to the fact that the savings banks increasingly reached out to a more bourgeois clientele, and guarantor liability certainly suited the customers' need for security. The credit cooperatives suffered from depression in the agricultural sector. The growth of deposit for both groups, particularly the savings banks, ground to a sudden halt when the

<sup>16</sup> Wagner-Braun, *Kreditgenossenschaften*, pp. 30ff. – Gerd Hardach, by contrast, gives the following figures in “Die Entstehung des Drei-Säulen-Modells in der deutschen Kreditwirtschaft 1871 bis 1934”, in: *Geschichte und Perspektiven des Drei-Säulen-Modells der deutschen Kreditwirtschaft*. 28th Symposium of the Institut für bankhistorische Forschung e.V. on 23 June 2005 in the state bank of Baden-Württemberg, Stuttgart, ed. by the institute's Scientific Council (= Bankhistorisches Archiv Beiheft 46), Stuttgart 2007, p. 23:

	1913	1925
Commercial Banks	1,573	1,810
Savings Banks	3,133	3,253
Cooperative Banks	18,544	22,331
<u>Special Banks</u>	<u>84</u>	<u>85</u>
All Banks	23,334	27,479

The vast majority of the cooperative banks were Raiffeisen-style agricultural credit cooperatives.

worldwide economic crisis set in. The increased significance of deposits for both groups also led to quarrels about interest on deposits. The credit cooperatives were always willing to pay higher interest than the savings banks. Particularly since 1925, all groups within the credit system made efforts to find solutions to the competition problem, and a competition agreement was finally reached, in May 1928, between the central institutions of the banks, savings banks and credit cooperatives. All three associations voluntarily created a framework for a division of labour in the future. The core of this agreement was the resort to local arbitration boards with equal representation. Although it was hoped that these boards would efficiently satisfy all parties involved, the agreement did not have any contractual basis. The arbitration boards almost never stepped into action, since all parties involved tended to avoid public statements and demonstrable misconduct. Moreover, during the world economic crisis, credit was given only reluctantly.<sup>17</sup> One year later, “cooperation to prevent the destructive charging of excessive interest” (“Zusammenarbeit zur Verhinderung schädlicher Zinstreiberei”) was agreed between savings banks and credit cooperatives. There followed negotiations on maximum interest rates. The credit cooperatives were granted an interest advantage of 0.5%. Finally, in 1930, a “prohibition from publicly advertising interest” (“Verbot öffentlicher Zinsreklame”) was agreed. Josef Hoffmann, who witnessed these developments and later became managing director of the Deutscher Sparkassen- und Giroverband (DSGV), observed in 1931: “In view of the common ground between savings banks and cooperatives, it would seem obvious that they should do business together in the interest of the small businesses they both cater for; despite some attempts to do this, however, no solution is in sight” (“Der angesichts der vielen Gemeinsamkeiten nahe liegende Gedanke einer geschäftlichen Zusammenarbeit von Sparkassen und Genossenschaften zum Nutzen der gemeinschaftlich betreuten Kleinwirtschaft ist dagegen bisher trotz

<sup>17</sup> Hans Pohl, “Die Sparkassen vom Ausgang des 19. Jahrhunderts bis zum Ende des Zweiten Weltkriegs”, in: Hans Pohl, Bernd Rudolph, Günther Schulz: *Wirtschafts- und Sozialgeschichte der deutschen Sparkassen im 20. Jahrhundert*, (Stuttgart 2005), pp. 21-248; here: pp. 96-98.

gelegentlicher Versuche einer Lösung nicht näher gebracht worden").<sup>18</sup> For the savings banks, short-term deposits became increasingly significant, while giro transfers, basic exemption from fees and interest paid on deposits all worked in their favour.<sup>19</sup>

In the credit business, the share taken by savings banks and credit cooperatives also shifted. The savings banks were able to expand their market position in this sector, particularly in the middle-income groups, thus penetrating a core business area of the cooperatives. Since the balance sheet total of many savings banks was also higher than in the credit cooperatives, they were in a position to offer more profitable large loans – in contrast to the cooperatives, which were limited to granting credits exclusively to their members. While before the inflation the savings banks were leaders in the long-term credit business, (in 1913, 97% of savings bank credits were long-term, primarily in mortgages, and only 3% short-term), the ratio between long and short-term credits was much more balanced in the case of the credit cooperatives: short-term credits were slightly higher at 55%, with 45% for long-term credits. This changed radically after the inflation, because the savings banks also began to lend primarily on a short-term basis (almost 90%), due to the expansion of the giro transfer sector and as a result of a lack of capital on the part of the credit cooperatives. While both groups were able to expand their short-term credits until the world economic crisis, the savings banks did this more successfully than the credit cooperatives. During the global crisis, the market share of the credit cooperatives dropped in favour of the savings banks, while simultaneously an expansion of the long-term cooperative credit sector was not achieved.<sup>20</sup>

While the savings banks formed an organised alliance, once the Deutscher Sparkassenverband and the Deutsche Girozentrale amalgamated to form the Deutscher Sparkassen- und Giroverband in 1924, the cooperatives

<sup>18</sup> Hoffmann, *Sparkasseneinheit*, pp. 129 and 136 (quotes); according to him, the competition agreement was a "Kodex der Selbstverständlichkeiten" ("codex of matters of course"); Wagner-Braun, *Kreditgenossenschaften*, pp. 32ff.

<sup>19</sup> Wagner-Braun, *Kreditgenossenschaften*, p. 33.

<sup>20</sup> Wagner-Braun, *Kreditgenossenschaften*, pp. 34ff.

not only lacked a standard body for agreeing on compensation, but had a fragmented association. Through amalgamations of individual, independent associations, two strong overarching federations (*Reichsverbände*) were created, which constituted real progress in terms of a standard cooperative associative entity. Thus, the Deutscher Genossenschaftsverband was founded in 1920, and the Reichsverband der deutschen landwirtschaftlichen Genossenschaften – Raiffeisen e.V. was founded in 1930. The role of federations since the second half of the 1920s should not be underestimated, for the quibbles about competitive advantages had increased not only with the big banks, but also between credit cooperatives and savings banks, but the savings and loan banks (*Spar- und Darlehenskassen*) in rural areas worked against the increase in the number of rural savings bank branches.<sup>21</sup>

During the Weimar Republic, the phase of segmenting clientele and business sectors came to an end. Until then, there had hardly been any competition. For reasons of profitability (i.e. the struggle for survival), however, conditions changed during the Weimar Republic; in other words, clientele and business sectors increasingly overlapped, particularly so in the fields of personal credit and current account transactions. The savings banks gained a competitive edge with regard to liability, capital ownership, tax liability, advertising and training, while the credit cooperatives did not recognise the importance of giro transactions in time. Wagner-Braun sees “the Weimar Republic as clearly identifiable as the starting point for the very same intense competition that still exists today”. Even today, the sectors that were relevant at the time still play a decisive part, i.e., the struggle for money deposits, credit grants, but also other structural issues such as liability, capital resources, personnel policy and advertising strategies. Nowadays, however, any technical or banking innovations are usually quickly identified and then thwarted by competitors. Since Weimar, the rivalry between both groups has intensified.<sup>22</sup> This aggravation of competition between the savings banks

<sup>21</sup> Ashauer, *Ersparungscasse*, pp. 234ff, and Wagner-Braun, *Kreditgenossenschaften*, pp. 25ff.

<sup>22</sup> Wagner-Braun, *Kreditgenossenschaften*, pp. 36ff.

and the credit cooperatives is revealed by the fact that the Reichsverband der Genossenschaften bemoaned an “undesirable expansion of the savings banks through the establishment of branches in rural areas” and the DSGV, on the other hand, “vehemently” rejected the “imputation that savings banks are less efficient and less capable of ensuring credit supply than the savings and loan banks in rural areas”.<sup>23</sup> “There was only one decentralised group of banks that could keep up with the public savings banks because it was efficient, financially strong and geographically well-represented: the agricultural and commercial credit cooperatives. While the public paid much attention to the conflict that was raging between savings banks and big banks, competition between savings banks and credit cooperatives happened on an everyday basis. At the end of the year 1932, there were 21,373 credit cooperatives in Germany, including 2,295 municipal commercial credit cooperatives and 19,078 rural savings and loan banks.” A competitive situation between these and the public savings banks was particularly prevalent in the Southern German areas. In Hesse, savings deposits with public savings banks reached over 75% in 1930, in Württemberg this figure almost reached 90%, and in Bavaria it even reached 93%. In the Prussian provinces, by contrast, the volume of savings deposited in the cooperatives regularly stayed below 20% of the total sum deposited with public savings banks.<sup>24</sup>

The savings banks had succeeded in gaining recognition as equal negotiating partners, as well as for the universal credit business (*Universalkreditgeschäft*); this was confirmed by the bank survey (*Bankenquete*) of 1933 and the resulting German Banking Act (*Gesetz über das Kreditwesen*, or KWG), passed in 1934. Thus, the German banking system not only underwent changes through the amalgamation of big banks and the closing of many smaller private banks, but also because of administrative constraints and increasing regulation, such as foreign exchange controls since 1931 and an intensification of bank control. As a result of an emergency decree in 1931, the savings banks lost business sectors because mortgage business was limited to 40% of

<sup>23</sup> Ashauer, *Ersparungscasse*, p. 235.

<sup>24</sup> Pohl, *Sparkassen*, pp. 96ff.

the savings deposits, and loans granted to communities were forbidden and only reintroduced in 1939, when they were limited to a maximum of 25% of deposits.<sup>25</sup>

Until the world economic crisis, the savings banks thus expanded their business in the savings, cashless payment and short-term credit sectors, steadily acquiring new customers. The credit cooperatives concentrated on covering the credit needs of the small and medium-sized industrial and agricultural businesses. In expanding the giro transfer and short-term credit businesses, the savings banks entered not only the markets of commercial banks, but also those of the cooperatives. "The central institutions in the savings bank and cooperative sectors developed into regional banks, increasingly becoming competitors of the regional commercial banks. A crucial competitive advantage the savings banks had were low operating costs. The same was true of the agricultural cooperatives, which had low administrative costs, due mainly to unsalaried management and low material expenses. The commercial cooperative banks, on the other hand, did not differ substantially from the commercial banks. In 1931, operating costs accounted for 3.5% of the balance sheet total of the local and regional commercial banks, while the same costs were at 3.4% in the case of big banks, 3.2% for commercial cooperatives, 1.8% for agricultural cooperatives and 1.5% for the Prussian savings banks."<sup>26</sup>

In the case of the savings bank and cooperative sectors, the central institutions (i.e., the central giro associations/state banks and the central institutions for credit cooperatives, respectively) became regional banks after the expansion of giro transfers. For the most part, the local banks were savings banks and credit cooperatives, since their business activity was limited to local regions, in keeping with the principle of regionalism. Generally, a savings bank usually catered for a town or district, along with a commercial cooperative bank. The rural cooperatives reached as far as the rural communities, in keeping with Raiffeisen's principle that a cooperative's catchment area should be limited to the area that could

<sup>25</sup> Pohl, *Institute*, pp. 1164ff.

<sup>26</sup> Hardach, *Entstehung*, pp. 34ff.

be seen from the church tower; this principle was supposed to promote solidarity between members. Both groups developed into local universal banks. The branch expansion of big banks, on the one hand, and that of the savings banks and credit cooperatives, on the other, ousted a number of local and regional commercial banks. "In the savings and cooperative bank sectors, structural decentralisation remained in place, due to the principle of regionalism. After a number of local commercial banks had been taken over by bigger banks or had disappeared for other reasons, the savings banks and credit cooperatives began more and more to take on the function of independent local banks. In many towns, the local savings bank or cooperative bank was the only provider of banking services. In medium-sized towns and large cities, they competed with branches of big banks and regional banks. The savings banks and credit cooperatives counteracted the commercial banks' financial strength with low administration costs, knowledge of the local economy and the confidence of customers. All these were competitive advantages. Through the central institutions (*Zentralinstitute*), which had gained more and more significance as regional banks during the time of the Weimar Republic, the savings bank and cooperative sectors were present in the regional finance markets also." During the 1931 banking crisis, the big banks in particular suffered heavy losses. This is why the position of savings banks and credit cooperatives as local and regional banks was strengthened.<sup>27</sup>

In engaging in credit business, savings banks and credit cooperatives focused on small loans, i.e., loans of less than 10,000 RM. For savings banks as for cooperatives, these loans made up 57% of total credit. Competition between the individual banks concentrated mainly on medium-sized credit loans of between 10,000 and 100,000 RM, which made up 43% of the total credit of savings banks and credit cooperatives, 47% in the case of medium-sized private banks and still 23%, nevertheless, in the case of big banks; however, the boundaries between the sub-segments were becoming more and more blurred, which in turn increased

<sup>27</sup> Hardach, *Entstehung*, pp. 27ff (quote p. 29).

competition. Savings banks and mortgage banks survived the banking crisis a lot better than the big banks, because long-term credit business was far less affected by the crisis, and savings money was flowing once again. The savings banks' market shares therefore increased once again, and the credit cooperatives, too, were able to maintain their position as a result of their members' solidarity. They were therefore relatively crisis-resistant.<sup>28</sup>

### 3. The "Third Reich" Period

During the "Third Reich", competition increased substantially. In the course of the farming sector's corporate reorganisation as a *Reichsnährstand* (a corporation under public law), agricultural credit cooperatives attempted to keep monetary transactions relating to this sector in the family, as it were, coining the motto "das Geld des Dorfes dem Dorfe" ("the village's money for the village"). Accounts with savings banks were closed and reopened with agricultural credit cooperatives. The German trade order referred to the credit cooperatives as "Banken des gewerblichen Mittelstandes" ("banks of the medium-sized businesses"), openly advertising for them, while the savings banks were not even mentioned as performing the same role. However, the savings banks did profit from a decision of the NSDAP leadership, in 1933, to set up all party accounts exclusively with public banks. Sub-divisions of the Nazi Party also decided to do this.<sup>29</sup>

When the office of *Reichskommissar für das Kreditwesen* was created within the framework of the 1934 Banking Act, the new Commissioner was given the task of bringing about agreement between banks on the amount of their credit and debit interest. This was achieved via agreements between the central institutions of the various bank groups. These associations hence received instruction for their clientele. The widespread standardisation of interest and commissions, in other words an interest

<sup>28</sup> *Ibid.*, pp. 35f, and Pohl, *Mittelständische Wirtschaft*, p. 395.

<sup>29</sup> Pohl, *Sparkassen*, p. 151.

cartel enacted by the Central State ("Reich"), remained in place until the spring of 1967. Banks and the rest of the business world also had to work according to the corporative principle, i.e., keep to fixed prices and conditions. Moreover, the banks were constantly subject to control. Since 1936, and in accordance with the four-year plan, there was a general price freeze. During the twelve Nazi years, "competition and cooperation had virtually become alien words".<sup>30</sup>

Savings banks and credit cooperatives also became integrated into the tacit financing of the war, absorbing a large share of the private savings available to the central state as credit within the framework of a planned economy. For this reason, the savings banks were able to "expand their volume of business significantly, principally by the growing number of savings deposits". The cooperatives, on the other hand, expanded only minimally. In 1939, the average balance sheet total of a joint stock bank was 176 million RM; that of a savings bank was 8.9 million; and that of a cooperative 324,000 RM. These huge discrepancies therefore continued to exist between the three pillars of the credit business, despite the dismantling of institutional barriers. All three continued to do different kinds of business.<sup>31</sup> In general, one can say that the "Third Reich" doubtless bore traits of a planned and even restrictive economy. Free competition in the centrally administered economy was therefore not possible, due principally to the price freeze of 1936 and the integration of banks into the military and war economies; by dint of their public nature, the savings banks were seen as particularly predestined to serve as collecting points for private capital in the financing of Reich loan stocks.<sup>32</sup> The savings banks were brought into line. Nazi ideology referred to privately accumulated capital as a "source of national strength" ("Kraftquell der Nation"). As the main pillar of the savings business, the savings banks were to play a crucial part in implementing this ideology. The connecting factor here was the principle of public utility, which the savings banks emphasised when propagating their nature. The public utility of the savings banks was instrumentalised

<sup>30</sup> Häuser, *Wettbewerb*, pp. 49ff, quote p. 52.

<sup>31</sup> Hardach, *Entstehung*, pp. 29, 26 (quote).

<sup>32</sup> Pohl, *Institute*, pp. 1165ff, and Pohl, *Sparkassen*, pp. 157ff.

in this way.<sup>33</sup> It is therefore no surprise that the savings banks retained around 78% of all savings deposits in the year 1937. At 10.8%, the agricultural cooperatives were the second-most important savings institution. The other banks, on the whole, played only a marginal role in this field.

During the "Third Reich", the state became the largest borrower of the savings banks. Hence, investment business shifted from the local and private to the public credit business.<sup>34</sup> In 1933, the savings banks' mortgage business was the most significant form of investment, at 40.8%, and in 1944 it was still at 7.5%.<sup>35</sup> The community loans were also done away with. "The savings banks felt disadvantaged by the prohibition of community loans, since private and cooperative credit institutes continued to be allowed to grant community loans". The consensus was to redirect capital in favour of central state priorities.<sup>36</sup> Because of the state's entitlement to public financing, lending went back to private customers. In all groups, personal credit lost significance in the investment business; but medium-sized personal credits, mainly granted by savings banks, agricultural and commercial cooperatives, were less affected by falling demand than the credits that were given to larger business sectors, because the small and medium-sized businesses operated, for the most part, in the consumer goods sector, thus profiting less from public investments and subventions that tended to concentrate more on the producer goods industry in the context of armaments. When the war broke out, however, the number of personal loans continued to decrease.<sup>37</sup>

#### **4. A New Beginning and Expansion after the Second World War**

In the immediate aftermath of the war, the banking world was, for the most part, free of competition. There was little change in this situation, because measures of planning and control that had been imposed by the Allies were temporarily upheld. Until the currency reform, however,

<sup>33</sup> Pohl, *Sparkassen*, p. 176.

<sup>34</sup> *Ibid.*, p. 212.

<sup>35</sup> *Ibid.*, p. 216.

<sup>36</sup> *Ibid.*, p. 219.

<sup>37</sup> *Ibid.*, pp. 221ff.

certain decisions were made that had a significant impact on further developments. The continuation of the savings banks in the three Western zones was guaranteed, since the savings banks were organised according to the principle of decentralisation, thus corresponding to the concept and intentions of the occupying powers. The situation was similar for the cooperatives, which also operated locally. However, both groups soon had to cope with changes to the general set-up, which were brought about by the general spread and structural transformation of the credit cooperatives and the savings banks, but also by a transformation of the macroeconomic infrastructure (a decline in agriculture, more industry in many municipalities, growing private income, cashless payments, etc.). With this came a change in the attitude of both types of institutes towards each other. The voluntary division of labour between the savings banks and the credit cooperatives was given up for good, and competition once again became fiercer.

The currency reform also meant that the free market system took root again. The first years were marked by enormous rebuilding activity, particularly in the infrastructure and housing sectors. Here, the savings banks were especially active in their classic credit business, community credits and mortgage loans, while the traditional savings deposit business also gradually increased on the liabilities side. Later growth areas, such as foreign and securities business, played practically no role at all.<sup>38</sup> The sector governed by public law played a huge part in the immediate aftermath of the war, because most savings banks had the local municipalities as warrantors, certain independent savings banks aside. They principally engaged in long-term credit business with municipalities, builder-owners, firms and people in need of credit in a private capacity. There was barely any internal competition. The number of savings bank branches rose to roughly what it had been during the mid-1930s, prior to war-related closures. In 1950, there were almost 900 savings banks

<sup>38</sup> Pohl, *Institute*, pp. 1166ff, and Pohl, "Universalisierung und Strukturwandel des deutschen Sparkassenwesens nach 1945", in: Pohl, *Die europäischen Sparkassen nach 1945 – auf dem Weg zu Universalkreditinstituten (= Sparkassen in der Geschichte. Abt. 1, Dokumentation 21)*, (Stuttgart 2000), pp. 99-123; here: pp. 99ff.

with around 7,300 branches throughout the Federal Republic of Germany. Collaborative work also soon began again, first in the form of a working association, and from 1953 once again in the guise of the Deutscher Sparkassen- und Giroverband.<sup>39</sup> The savings banks thus soon found their way back into business in the post-war years.

In 1950, there were almost 12,000 local rural credit cooperatives (*Raiffeisenbanken*), of which roughly 9,500 were very small institutes. This meant that rural areas in particular were well covered, for most of these banks were manned by only one or two staff. The business sectors were straightforward, because the head of each branch was usually personally acquainted with his customers, who could communicate directly with their bank. On the whole, the Raiffeisen banks occupied a fair share of the market, although individual institutions had only modest balance sheets (6,000 had a balance sheet total of less than 100,000 DM, and only 250 surpassed the 1 million mark). Banking on a professional scale was scarcely possible.<sup>40</sup> Most commercial credit cooperatives after the war were also called *Volksbanken*; these took up their traditional work in the small and medium-sized towns, while their importance in the cities tended to be the exception. The average balance sheet of the kind of *Volksbanken* envisioned by Schulze-Delitzsch was 3.1 million DM; their number, however, had fallen to around 732 by 1952, despite a huge increase in membership (570,000 members). In the case of the *Volksbanken* and Raiffeisen banks, short-term credit for working capital dominated until the end of the 1950s; more long-term financing became

<sup>39</sup> Rainer Gömmel, "Kreditgenossenschaften und Sparkassen im Wettbewerb von der Währungsreform 1948 bis in die 90er Jahre", in: *Beiträge zur Genossenschaftsgeschichte*, Part 1 (= *Schriftenreihe zur Genossenschaftsgeschichte*, vol. 6), (Munich 2003), pp.40-51; here: p. 41; Herbert Wolf, "Von der Währungsreform bis zum Großbankengesetz (1948-1952)", in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main 1998), pp. 59-110; here: pp. 94ff and 97ff; Günther Schulz, *Die Sparkassen vom Ende des Zweiten Weltkrieges bis zur Wiedervereinigung*, in: Hans Pohl, Bernd Rudolph, Günther Schulz: *Wirtschafts- und Sozialgeschichte der deutschen Sparkassen im 20. Jahrhundert*, (Stuttgart 2005), pp. 249-428; here: pp. 253ff.

<sup>40</sup> This also explains the comparatively small number of Raiffeisen bank branches (c. 2,500), for only larger institutions had branches. Gömmel, *Kreditgenossenschaften*, pp. 41ff, and Wolf, *Währungsreform*, pp. 97f.

possible as the volume of savings grew. During the 1950s, deposits grew by at least 13% annually in the case of the 10,000 Raiffeisen banks. The volume of credit tripled to 4.7 billion DM (1958).<sup>41</sup>

The savings banks had returned to business as usual pretty soon, and the 1950s saw a major economic upswing that was entirely in line with the general upward trend of the savings banks; it was particularly buoyant in those savings banks that were located in the cities. Overall, the savings banks demonstrated "heightened professional self-esteem" and were in the process of "expanding their range of services to include foreign and securities business".<sup>42</sup> Until 1952, sight and fixed-term deposits increased as a result of low savings activity, but savings deposits did increase afterwards – from 2.1 to 28.5 billion DM between 1949 and 1959. This development was fostered by tax breaks and a number of special savings schemes, such as marriage, premium, savings and small savings schemes, etc. "When liquidity was in balance and profitability was good or even excellent, the economic miracle (*Wirtschaftswunder*) of German reconstruction efforts was visible in the rapid growth of the savings banks." This successful growth centred on deposit banking and long-term credit business. On the assets side, mortgage credits, in particular, rose greatly, from 367 million DM in 1949 to 11.8 billion in 1959. Every third completed dwelling was financed, at least in part, by a savings bank; on top of this, there were the financing services of the central giro institutions and public building societies. Loans granted to communities also increased significantly once again, as did the remaining forms of long-term credit. The financing of small and medium-sized businesses also played an exceptional part. As early as the 1950s, the number of savings banks fell from 883 in 1949 to 852 in 1959, as a result of amalgamations. The number of branches initially only grew very slowly

<sup>41</sup> Herbert Wolf, "Vom Großbankengesetz bis zur "Normalisierung" (1953-1958)", in: Hans Pöhl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main 1998), pp.111-148; here: p. 135; Schulz, Sparkassen, pp. 252ff, and Wolf, *Währungsreform*, pp. 97ff. In contrast to the central giro associations of the savings banks, the cooperative central institutions combined to form a loose organisation across the borders of the federal states.

<sup>42</sup> Wolf, *Großbankengesetz*, p. 133.

to 9,847 in 1958, and this happened only after the so-called pharmacy verdict (*Apotheken-Urteil*), dating from 10 July 1958, which ruled that proof of need was no longer mandatory in the context of opening branches; as a consequence, branches began to mushroom.<sup>43</sup> As early as 1959, their number rose immensely: for instance, between January and September 1959, there were almost three times as many savings banks (699) and almost four times as many credit cooperatives (424) as there had been in the previous nine months. For savings banks as for cooperatives, growth was faster than it was for the commercial banks, due to the rapid rebound of private savings activity.<sup>44</sup>

"Business policies very slowly began to draw nearer to the private and cooperative universal institutes." The central giro institutions also benefited from this development, namely from the high volume of money deposited by the savings banks they were affiliated with, but also in their capacity as mortgage banks (mortgage and community bonds). Apart from the regional central giro associations, the year 1954 also saw the foundation of the Deutsche Girozentrale in Düsseldorf, and the state banks were also reshuffled. This integrated system (*Verbund*) of savings banks, central giro associations, state banks and alliances constituted a fund of liquidity that also organised payment transactions.<sup>45</sup>

In 1958, 767 commercial credit cooperatives were in operation, of which there were 702 *Volksbanken* (including 10 civil servant banks), 16 savings and loan associations for rail employees, 20 savings and loan associations for postal employees, and 17 other credit cooperatives. The combined balance sheet total of the credit cooperatives was 6.1 billion DM, of which 5.5 billion went to the *Volksbanken*. Membership figures (almost 750,000 members in total) were composed as follows: about one quarter of the members were independent craftsmen, roughly another quarter were wholesalers and retailers and other business people, 16% were employees and labourers, 12% were farmers and 7% were self-employed. This explains the fact that the principal activities of the

<sup>43</sup> Ashauer, *Ersparungscasse*, pp. 279ff, quote p. 281; Schulz, *Sparkassen*, pp. 253ff.

<sup>44</sup> Wolf, *Großbankengesetz*, p. 129.

<sup>45</sup> Wolf, *Großbankengesetz*, pp.133ff, quote p. 133.

*Volksbanken* continued to lie in the realm of short-term credit for working capital. Since they, too, experienced an enormous increase in the accruing of savings, they were in a position to finance more and more long-term operations, which subsequently accounted for 18% by 1958. Despite amalgamations having begun, there were still more than 10,000 Raiffeisen banks in Germany, which consequently made up a close-knit network of branches with a function of expanding activity (*Saugstellenfunktion*), in which every branch profited from increased savings. The rural credit cooperatives also boasted a growth in deposits of 325% between 1952 and 1958, i.e., from 2 to 6.5 billion DM, tripling their total credit at the same time from 1.6 to 4.7 billion DM.

While around half the Raiffeisen banks were still being managed on a voluntary basis or as a side job, the group experienced a major intensification of professionalisation and amalgamation processes, since it was growing at a rate that quite simply made professional management inevitable. The roughly 1.5 million members (in 1958) tended to invest their savings with their local cooperative, so that the share of savings account deposits at 71% constituted the highest, of all the institution groups, despite the average savings account usually only slightly surpassing the 800 DM mark in 1958. The size ranges shifted quite markedly, so that the total balance sheet of as many as 113 banks was over 5 million DM (in 1958); that said, a certain North-South trend can be discerned, for the level of balance sheet were generally several times higher in Northern Germany than they were in the South.<sup>46</sup>

There were also significant differences between the 18 regional central credit cooperatives (*Zentralkassen*). The central Bavarian Raiffeisen institution (Bayerische Raiffeisen-Zentralkasse), located in Munich, was the largest of all Raiffeisen banks, and the central institution of Southwest German *Volksbanken* (Zentralkasse Südwestdeutscher Volksbanken AG) was the largest among the central institutions of the *Volksbanken*. Since 1949, both cooperative groups collaborated within the framework of the Deutsche Genossenschaftskasse, which was the central institution of both

<sup>46</sup> Wolf, *Großbankengesetz*, pp.135ff. Savings banks accounts contained, on average, almost 1,000 DM.

groups. On 28 October 1954, this institution was granted the right to accept deposits, in addition to trustee security status. From 1957 on, it was allowed to issue bonds. Since 1956, the Schwäbisch-Hall building society was also in charge of the commercial and agricultural cooperatives. Both of the central institutions, located in Bonn, retained their independence until they were amalgamated under the name Deutscher Genossenschafts- und Raiffeisenverband (DGRV). At the end of the 1950s, an amalgamation of Schulze-Delitzsch-style cooperatives and Raiffeisen banks had appeared to be “still inconceivable”.<sup>17</sup> The cooperatives, which had initially been serving a similar clientele, were still slow to develop, compared to the savings banks organisation – more so since the central credit cooperatives merely had a responsibility within the association, not externally. The central giro associations, by contrast, had a number of functions to fulfil. Since both groups, savings banks and credit cooperatives, were still in the midst of expanding their new as well as their traditional business sectors, the 1950s “ultimately saw a truce between the institution groups”.<sup>18</sup>

Despite the gradual decline in the number of savings banks and credit cooperatives, there was no serious competition between these two groups from the 1950s onwards, since both were busy expanding – and, hence, busy with their own affairs.

## 5. Deregulation

The year 1958 marked a turning point in the development of the German economy and the credit business; this was the beginning of the Common Market of the European Economic Community (FEC), and proof of need (*Bedürfnisprüfung*) was no longer necessary for credit institutions after 10 July 1958. In other words, every financial institute was allowed

<sup>17</sup> *ibid.*, pp. 136f (quote p. 137); Pohl, *Institute*, p.1168, and Oswald Hahn, “Zwischen Energiekrise und wirtschaftlicher Wende (1973-1981)”, in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main 1998), pp. 249-298; here: p. 270.

<sup>18</sup> Pohl, *Institute*, p. 1168.

to open branches wherever it wanted. Moreover, convertibility of the German Mark was introduced in late 1958, thus doing away with the foreign exchange controls that had been in existence since 1931. With the Bundesbank Act, passed in 1957, the West German Central Bank system took on its definitive form. By 1958, the credit business had returned to normal.<sup>49</sup> On 1 April 1967, fixed interest rates were abolished, which led to competition concerning terms and conditions; and in late 1967, the remaining competition restrictions in the credit sector were abolished. Also from 1 April 1967 onwards, all German credit institutes were allowed to determine their credit and deposit conditions freely. On 23 November 1967, the special regulations for these institutions concerning competition and advertising were abolished. Increased advertising and acquisition activity was the result. Due to competition with the savings banks having become stronger, the number of credit cooperatives fell by almost 40% between the years 1960 and 1970 – 4,540 in absolute figures. The aim of this amalgamation trend was to lower costs, and this goal was also to be achieved by rationalisation measures. Since 1957, after all, cashless salary payment transactions were conducted via current accounts, which constituted the actual bulk of the business of credit institutes; these, however, now had to battle with new spatial and organisational problems, as well as with issues of personnel and technology. Since the savings banks operated salary payment accounts at no charge until 1971, thus attracting many customers but simultaneously forcing themselves to automate payment transactions, the credit cooperatives, on the other hand, lost some of their clientele. Since 1 July 1970, payment transactions have been standardised throughout the German banking system, which caused another burst of automation. All this could not be managed by the many small, independent credit cooperatives, which is why stronger mergers were necessary. At the association level, this economic development led to increased competition and, in 1972, to the foundation of the aforementioned Bundesverband

<sup>49</sup> Wolf, *Großbankengesetz*, p. 111, and Gerold Ambrosius, "Intensives Wachstum (1958-1965)", in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main, 1998), pp. 149-202; here: p. 157.

der Volksbanken und Raiffeisenbanken e.V. (BVR); this association continued to promote amalgamations.<sup>50</sup>

The German economy experienced a major growth phase from 1958 until 1965. All macro-economic data, the gross national product and the unemployment and inflation rates were virtually ideal, and investments increased substantially. However, the capital market was still underdeveloped until 1958. At that time, however, the internationalisation of capital markets was already beginning. With branches no longer having to supply proof of need, their number rose by 5,573 credit cooperatives and by 5,246 savings banks between 1957 and 1967; however, this only occurred within the guarantor areas, due to the principle of regionalism. Big banks grew by as many as 1,316 branches. In percent, this meant the credit cooperatives had 46%, the savings banks had 38% and big banks had 6% of the total of 37,144 central offices and branches. Simultaneously, the number of legally independent credit institutes dwindled as a result of amalgamations and bankruptcies. The process of concentration reached a high point in the mid-1960s, weakening once again in the early 1970s. The number of credit cooperatives fell by 2,483 between 1957 and 1967, and the number of savings banks fell by 9. The number of central giro associations remained constant at 14, as did the number of central credit cooperatives at 19. The decline in the number of credit institutes resulted mainly from the fact that small rural credit cooperatives were closed. Smaller institutes were absorbed as branches of larger ones. These far smaller branches had to grapple with far more substantial organisational and technical problems than the savings banks. Further, more and more *Volksbanken* that were in close proximity to each other began to amalgamate, thus promoting the principle of regionalism in larger cities. In addition, external competitive pressure grew, but also between the rural and commercial cooperatives, and the *Volksbanken* expanded in the larger cities and the incorporated areas in the suburbs. Raiffeisen

<sup>50</sup> Gömmel, *Kreditgenossenschaften*, pp. 42ff; Wolf, *Großbankengesetz*, p. 140, and Hans Pohl and Gabriele Jachmich, "Verschärfung des Wettbewerbs (1966-1973)", in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, Frankfurt am Main 1998, pp.203-248; here: pp. 207ff.

banks and *Volksbanken* varied significantly in average size. In 1965, the average volume of business of Raiffeisen banks was 2.4 million DM, while that of the commercial credit cooperatives was more than 23 million DM.

The 1960s also saw a change in membership numbers, which increased massively. Simultaneously, the membership structure also changed. The number of farmers fell, as did the number of craftsmen and other small businessmen. On the other hand, the *Volksbanken* expanded in the blue-collar and white-collar sectors, but also in the larger middle-class businesses. The same was true for the Raiffeisen banks. This was surely a consequence of the changes in the social structure of the population in general, but also of the business activity, organisation and overall image of the cooperatives.

The operational organisation of larger units required skilled people with proper qualifications as full-time managers, with rationalisation and automation occurring simultaneously. Cashless salary payment transactions, as well as a surge in savings activity and travel, turned out to be positive for them, too.

Within the Raiffeisen cooperatives, the separation of commodity trade and financial operations began to take hold. A further advantage was that unlimited liability continued to wane. Thus, by the mid-1960s, the *Volksbanken* were modern universal banks with a varied range of services and strong competition for the savings banks.

Most of the time, these changes came as a result of amalgamations with other credit cooperatives, so that operating units could be increased in size and efficiency. These amalgamations usually took place within the two associated groups, the Raiffeisen banks and *Volksbanken*. Through branch expansion, the entire bank network became denser throughout Germany. Because of possible over-representation, an attempt was made to implement self-governing measures with the supervisory authorities and central institutions; however, these measures usually went unnoticed. In view of the heightened competition caused by this branch expansion, the newly reformed German Banking Act – in force since 1 January 1962 – ensured a legal standardisation, i.e., a harmonisation of conditions for competition. This was achieved through the creation of the *Bundesaufsichtsamt für das Kreditwesen*, the central federal agency replacing the public supervision

of banking which had hitherto been under the jurisdiction of the federal states. In addition, several rulings that had been in place since 1931 and weakened the savings banks were abolished, such as the special liquidity requirement (*Sonderliquiditätsbestimmung*), the quota limitation on mortgage loans and the ban on loans granted to communities. A further step to strengthening competition occurred in 1967, with the annulment of the agreements on competition and fixed interest rates. For the future, this meant that not only branch policy could be used to expand business, but also interest policy, varying conditions and, last but not least, advertising.<sup>51</sup>

The rapid resurrection of the West German economy improved the capacity and potential of the classic savings bank and cooperative clientele to start saving once again, and both these bank groups gained a competitive advantage as a result. However, big banks and commercial banks were also entering the mass market. The savings banks and credit cooperatives had the advantage, however, of being able to lure private customers with cashless salary payment transactions; most current accounts, therefore, remained with these two institution groups. Consumer credit, which was granted as personal credit, the introduction of the buyer's credit (*Kaufkredit*) from 1952 on and payments by cheque or money transfer led to a huge expansion. The securities business was established within the savings bank sector through the establishment of the Deutsche Kapitalanlagegesellschaft (Deka) in 1956, and it was developed and expanded from 1967 on through the issuing of savings certificates (*Sparbriefe*). On the whole, the service idea came more and more to the fore in all banks. Small personal loans continued to gain in importance, culminating in the introduction of a new form of personal drawing credit (*Dispositionskredit*) in 1968. With the abolition of exchange controls (*Devisenbewirtschaftung*), a new business area emerged as a result of private and commercial clients increasingly travelling abroad. In the stable phase of the reconstruction of the German economy, i.e., until the first recession in 1966/67, the most important prerequisites for

<sup>51</sup> Pohl, *Institute*, p. 1168; Ambrosius, *Wachstum*, pp. 149ff, 157ff and 177ff; Gömmel, *Kreditgenossenschaften*, p. 46.

group competition in the German banking sector were created on the levels both of legal organisation and business policy.<sup>52</sup>

At the beginning of the 1960s, the automation threshold was crossed, i.e., most businesses began using punch cards and current account transactions, introducing electronic data processing later on.<sup>53</sup>

According to Gömmel, the savings banks began to “compete heavily” from 1960 on, which “brought them advantages” until 1970. In his opinion, the savings banks “grew much quicker” from 1950 until 1960 than the credit cooperatives. The latter, he continues, only reacted to this quite late, from 1960 on, “due to their traditional structures”; but in so doing, they were “rather successful”. The collective balance sheet for the saving banks was three times higher than that of the credit cooperatives in 1950, four times higher in 1960, three times higher in 1970, twice as high in 1980, and 1.7 times higher since 1995. A similar development occurred with the average balance sheet per bank branch of both groups. The total size of the balance sheets of the savings banks was 5.5 times larger than that of the credit cooperatives in 1960, but fell to 1.9 times larger in 1990.<sup>54</sup>

## 6. Merger Waves and Intensified Competition since 1966

1966 was a pivotal year, with the so-called Grand Coalition government of the two largest German parties, as well as the Stability Law; that year, there were enormous changes to the economic situation in Germany. These changes came to an end at the time of the oil crisis in 1973. Competition intensified as a result of legislative measures from previous years, such as interest liberalisation and the abolition of competition restrictions since 1967, which permitted all credit institutions to determine freely their investment and credit conditions.<sup>55</sup> For savings banks and state banks, the modifications to the legal framework of competition constituted a particular challenge. With the expansion of

<sup>52</sup> Pohl, *Institute*, pp. 1169ff.

<sup>53</sup> Ambrosius, *Wachstum*, pp. 178ff.

<sup>54</sup> Gömmel, *Kreditgenossenschaften*, pp. 48f.

<sup>55</sup> Pohl/Jachmich, *Verschärfung*, pp. 203ff.

their business areas, they were no longer in demand purely as savings institutions, but rather clients were now asking for more differentiated ways of investing their assets. All this led to a changed self-perception on the part of the savings banks and state banks. From then on, savings bank policies were market-oriented. This change of course was confirmed by the new regional savings bank laws. Their branching out into other markets brought criticism from their competitors, who accused them of benefiting from unjustified privileges and hence distorting competition conditions. Their public mandate was, however, confirmed in an examination carried out by the German government in 1968. At the beginning of the 1970s, the fundamental changes of direction were complete, and savings banks had become commercial banks. With this, the savings banks became subject to a conflict of role between public mandate and commercial market orientation, thus becoming permanently embroiled in competition battles. At this time, the first voices clamouring for the privatisation of savings banks became audible.<sup>56</sup> Group competition intensified significantly in the course of the following years, due to the broader range of savings bank services on the market; the private banks in particular protested against the savings banks' tax privileges, accusing them of distorting competition. In 1968, new basic taxation criteria for the savings banks took effect. Until then, core savings activities had been exempt from taxation. Now, on the other hand, they had to pay 35% of their income as corporate income tax (*Körperschaftsteuer*), which still meant they were 14 percentage points below the taxation rate of other credit institutes. The basis on which the savings banks were taxed was also advantageous in terms of the trading profit tax (*Gewerbeertragssteuer*) and property tax (*Vermögenssteuer*), the latter having been introduced in 1969 for savings banks as well.<sup>57</sup>

The savings banks also became the principal competitors of the Raiffeisen banks and *Volksbanken* in the battle for clients and market share. Until the mid-1970s, the credit cooperatives were unable to enforce

<sup>56</sup> *Ibid.*, pp. 207ff.

<sup>57</sup> Pohl, *Institute*, p. 1171; Pohl/Jachmich, *Verschärfung*, pp. 215ff; Ashauer, *Ersparungscasse*, p. 293.

the distribution of savings certificates on a large scale, as the savings banks had done. Only subsequently did the credit cooperatives expand their position in this area, particularly since in the course of the 1970s they were able to increase their market share significantly in terms of volume of business, total deposits and credit. In foreign business, however, they were still not competitive. Only after 1972 were they successful here, when the Deutsche Genossenschaftskasse, together with the BHF bank, founded the BHF-Bank-DGK International SA in Luxemburg. In the 1960s and 70s, the cumulative balance sheets of Raiffeisen banks, *Volksbanken*, regional cooperative central banks and the DG-Bank increased immensely. In 1960, it was 29,041 million DM; it was 108,111 million DM in 1970; and in 1982, it was 453,150 million DM.<sup>8</sup> In those years, the conflict between the cooperative principle and behaving competitively was also debated. The credit cooperatives had to try to hold on to their market share, particularly in rural areas. Given that they were only allowed to grant credits to members, a modification of cooperative law was badly needed, in order to open them up to non-members. Apart from the old institutes, there were a growing number of new institutions, formed as joint stock companies. Until both associations merged in 1972, they had attempted to implement virtually identical plans for advertising strategies. There were three specialised associations, aside from the central organisation, the Deutscher Genossenschafts- und Raiffeisenverband e.V., located in Bonn. The more active organisation also helped to improve the credit cooperatives' market position.

Of the 10,341 cooperative banks that were in existence in late 1965, 9,497 were rural banks and 706 were *Volksbanken* and civil service banks. In addition, there were 18 central credit cooperatives (*Zentralkassen*). With 16,000 head offices and branches, 48% of all banking head offices and branches in Germany were cooperative institutes. In the course of the following years, more and more credit cooperatives merged; particularly in the case of the Raiffeisen banks, head offices were frequently amalgamated and downgraded to subsidiaries. Between 1972

<sup>8</sup> Manfred Pohl, "Die Entwicklung des privaten Bankwesens nach 1945, in: *Deutsche Bankengeschichte*, vol. 3, (Frankfurt am Main) 1983, pp. 207-276; here: p. 272.

and 1981, the number of head offices of *Volksbanken* and Raiffeisen banks fell from 5,805 to 3,823, while the number of branches rose from 13,233 to 15,979.<sup>59</sup> In both groups, membership grew in the course of the 1960s. However, the membership structure changed, particularly in the 1970s. The traditional clientele of rural Raiffeisen banks and urban *Volksbanken* became more fluid. The group of workers, employees and civil servants grew to 59.4% by 1980; pensioners and other private persons accounted for 21.2%. In contrast, membership from agriculture and forestry, trade, industry and artisanship fell, for the dependent middle class was growing larger while the number of representatives from small and medium-sized businesses was becoming smaller.<sup>60</sup>

The savings banks were able to expand their market share until well into the 1960s; however, after that they lost some ground, as did the commercial banks, which were increasingly aiming at the retail business (*Mengengeschäft*) of the savings banks and credit cooperatives. The latter groups expanded, particularly via the central institutions, into the fields of industrial merchant banking and foreign business. This led to clientele groups and business structures becoming more and more similar. The credit cooperatives' growth during the 1970s was due mainly to the dense network of branches, mainly in rural areas, which caused the deposit business to grow significantly – something that did not apply to the savings banks.<sup>61</sup> In percentage terms, the savings banks' deposit business remained constant between 1966 and 1973, at 58 and 57%, and it even grew from 15 to 18% in the case of the credit cooperatives. In addition, saving through securities and by subscribing to trust units (*Investmentsparen*) began, and advertising became more important. While at the end of the 1960s the savings banks issued savings certificates and so-called *Sparkassenobligationen*, or savings bank debentures, and the *Volksbanken* and Raiffeisen banks also issued savings certificates, the credit cooperatives began a new savings programme in 1968, which was called the *Volksbank-Sparplan* (*Volksbank savings plan*); it offered

<sup>59</sup> Pohl/Jachmich, *Verschärfung*, pp. 217ff, and M. Pohl, *Entwicklung*, pp. 267ff.

<sup>60</sup> M. Pohl, *Entwicklung*, pp. 268ff.

<sup>61</sup> Pohl/Jachmich, *Verschärfung*, pp. 223ff.

practically every combination of the available savings and investment options, in addition to a term life insurance (*Risikolebensversicherung*) and a supplementary accident insurance. The saver was also given the option of a credit of up to the sum of the deposits invested, which covered the risk of a sudden need for cash. In an increasingly competitive game, the cooperatives also began to woo the self-employed, who had hitherto not been part of their traditional *clientele*. They were offered special advice on their assets. Small personal loans – so-called consumer credits – grew particularly strongly in all bank groups, with the savings banks and credit cooperatives granting a large measure of these short- and middle-term credits. In 1973, 40% of all credits to domestic firms and private persons were granted by the commercial banks, 30% by the savings banks and central giro associations, 10% by the credit cooperatives and central credit cooperatives, and 14% by the mortgage banks. For the larger credit cooperatives, business on their own behalf as well as with clients became increasingly important.<sup>62</sup>

The period up to the economic change in 1981 is marked most notably by the 1973 energy crisis and its consequences, as well as by rising public expenditure. In the amendment to the 1889 Cooperative Societies Act, dated 9 October 1973, major changes for the cooperative banks were decided: first, introducing the “cooperative without liability” to make an additional contribution (*ohne Nachschußpflicht*), which became important when the amendment to the German Banking Act (1984) reduced the liability limit; second, replacing the general assembly by an assembly of representatives in the case of the larger cooperatives with more than 3,000 members; third, granting credits to non-members; and fourth, expanding the extent of freedom by means of the statutes. In doing this, the legislator accepted the consequences of softening the original advancement incentive, and these measures also corresponded to what the cooperative organisations had imagined.<sup>63</sup> In the years between 1973

<sup>62</sup> *Ibid.*, pp. 227ff.

<sup>63</sup> Oswald Hahn, “Zwischen Energiekrise und wirtschaftlicher Wende (1973-1981)”, in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main, 1998), pp. 249-298; here: p. 254.

and 1982, the number of credit institutes fell as a whole, while the volume of business more than doubled. More than half the total went to institutes operating under public law. The cooperative banks were able to increase their business more than the savings banks, attaining around half the level of business of the private banks.<sup>64</sup>

As a consequence of the reform, i.e. the creation of larger communities after 1969, the savings banks, too, experienced a steadily growing number of mergers. The number of independent institutes dropped from 740 in 1973 to 599 in 1981. In line with a popular motto at the time, "Opas Sparkasse ist tot" ("Grandad's savings bank is dead"), they finally lost the remaining tax privileges in 1982 and, consequently, became more exposed to competition. Just like the credit cooperatives, they had to face the problem, in the 1970s, of joint cooperation with the planned labour division and the associations setting interest rates. At that time, the public mandate and the savings banks' equity ratio, seen as too low, were being discussed. Privatisation also began to be debated once again. Certain grievances in individual savings banks were overcome.<sup>65</sup>

In the cooperative sector, including the central credit cooperatives, the wave of mergers that had begun in the mid-1960s continued, so that by the end of the year 1981 only nine regional institutions remained; these, incidentally, were all calling themselves "banks" by this time.<sup>66</sup> There was also a proposal to merge the middle and upper levels, thus doing away with the three-step system (*Dreistufigkeit*). The Deutsche Genossenschaftskasse (DGK), in an attempt to emancipate itself, was renamed Deutsche Genossenschaftsbank (DG-Bank) in 1975. In a similar situation to that of the savings banks, the cooperatives also experienced a strong move of the central credit cooperatives towards commercial banking. For instance, the credit business of the central cooperative institutions with non-banks rose from 20.6% of the total volume of business

<sup>64</sup> *Ibid.*, p. 264.

<sup>65</sup> *Ibid.*, pp. 268f. The rescue of the state bank of the State of Hesse between 1973 and 1978, and major losses of the Westdeutsche Landesbank from forward exchange transactions in 1974 are further examples. *Ibid.*, p. 270.

<sup>66</sup> *Ibid.*, pp. 270ff.

in 1973 to 23.1% in 1981. Further, the consumer goods cooperatives had increasingly begun to use the services of other, i.e., non-cooperative, credit institutes, due to the strong competition between the banks.

At the local level, three phenomena can be observed: 1. Mergers continued. After the previous clean sweep between the years 1960 and 1973, however, which had "practically halved" the total number of cooperative banks, the merger wave weakened somewhat. At the close of the year 1973, 5,481 *Volksbanken* and Raiffeisen banks were in existence; by late 1981, this number fell to 3,933. In the previous 13 years, the number had dropped by three times as many (5,790).<sup>67</sup> Hahn sees the following causes for this: increased pressure of the associations on the rationalisation that went hand in hand with such mergers; two-person integrity; the fact that many boards of directors were unable to handle the "pressures"; board members' salaries that were paid according to the balance sheet total were a tempting incentive for the directors of smaller banks to merge, and small institutions consequently had problems to find new blood for leadership positions. 2. The classic promotional incentive had been done away with. Tougher competition and increased wealth in the population had led to a sufficient number of bank branches – not including rural areas – being available to cover customers' needs, and the services provided by these branches was barely distinguishable from those provided by the credit cooperatives. For this reason, the cooperatives also promoted credit business with non-members and an optional abolition of liability, which took effect in 1973. One had to rethink the promotional incentive, not least because many savings bank branches had been created in rural areas. 3. It is legitimate to speak of an "emancipation of the cooperative banks", away from their original concept, as the name changes from "Spar- und Darlehenskasse" to "Raiffeisen bank" demonstrate. They felt the need to compete and did not wish to play a minor role as a second bank, and they extended their range of services correspondingly, following the clientele of big banks. This is also manifest in bank automation, whereby regional

<sup>67</sup> Between 1957 and 1978, the number of credit cooperatives dropped by almost two thirds, from 11,814 to 4,614. Pohl, *Institute*, pp. 1172ff.

computer centres were created. Entering the securities business, however, was not a long-lived idea.<sup>68</sup>

After the savings banks had lost their tax privileges in 1982, they felt at a disadvantage, because the basis of their own capital, which was used as the basis for calculating the maximum level of business, was not competitive compared to all other credit institutions, including the cooperatives. The savings banks wanted guarantor liability to be included in the determination of equity. The German government refused to accept this in 1984.<sup>69</sup>

Intensified competition also led to a corresponding concentration in all banks. In the case of the cooperatives, the over 7,000 banks that had been done away with in the 1960s and 1970s were, for the most part, not disbanded, but instead taken over by others as branches. Along with the fact that they kept on expanding, this led to a huge increase in dependent branches; there were about six times as many, as the figure rose from 2,394 to 14,892 between 1957 and 1978. A parallel development occurred in the savings banks. As a result mainly of local restructuring (*kommunale Neugliederung*), the number of independent savings banks fell from 871 in 1957 to 611 in 1978, while the number of branches doubled, from 8,192 to 16,546.<sup>70</sup> For reasons of profitability, and because they functioned as house banks to the states, the state banks and central giro institutions also began a process of concentration around 1970. They, too, expanded into new business sectors, in particular the following: issuing, mortgage and community credit, securities transactions, foreign business, as well as syndicate transactions and investment business. In 1969, as a result, the Westdeutsche Landesbank came into being, as did the Norddeutsche Landesbank in 1970 and the Bayerische Landesbank Girozentrale in 1972. Since 1980, the savings banks were allowed to issue their own bearer bonds; which were traded on the stock exchange. In foreign business,

<sup>68</sup> Hahn, *Energiekrise*, pp. 274f.

<sup>69</sup> Werner Ehrlicher, "Von der "wirtschaftlichen Wende" zur Wiedervereinigung", in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main, 1998), pp. 299-354; here: pp. 319ff.

<sup>70</sup> Pohl, *Institute*, p. 1172.

the savings banks were increasingly able to improve their competitive position because of travel funds, girocheques and, later on, eurocards.

However, the internationalisation of banking also meant that foreign banks emerged on the German market as competitors – albeit less so in the case of the credit cooperatives and institutions governed by public law, whose clientele continued to be made up mainly of individual clients and small businesses. In the 1980s, an orientation towards individual customers remained. However, the traditional frontiers between the various bank groups became more and more fluid. Companies and private customers alike opted for good deals or specialised offers, rather than remaining faithful to their institute. In addition, non-banks and near-banks expanded, such as automobile manufacturers and insurance companies. That said, the savings banks managed to retain their (admittedly smaller) market share, while the commercial banks lost some market shares.<sup>71</sup>

Between 1970 and 1980, the state cooperatives significantly improved their savings deposits percentage (from 18 to 25% and from 16 to 26%, respectively), while the savings bank group lost 7% in the same field and time period, though it still held 53% of this market segment. As regards loans to domestic firms and economically independent private persons, both the savings banks and the cooperatives – unlike the commercial banks – were able to increase their share between 1970 and 1979 from 32.3 to 35 and from 13 to 15 percent, respectively.<sup>72</sup>

All banks' volumes of business rose by 258% between 1973 and 1989, that of the cooperatives advancing most at 323%, which left the savings banks in third place (243%) behind the other institutions (267%). The largest phase of expansion lasted until 1982. Naturally, the savings banks still retained the largest share of all business (37%), despite slightly slacking off in 1989. At 17%, the cooperative sector was last.

With regard to the volume of business, the savings banks remained the most significant group, despite their share was steadily decreasing. Then came the commercial banks, the remaining institutions, i.e., the

<sup>71</sup> *Ibid.*, pp. 1172ff.

<sup>72</sup> *Ibid.*, p. 1175.

agricultural banks, institutes with special areas and the post office savings banks, as well as the quantitatively weakest group, the credit cooperatives, whose share was steadily increasing. There were manifold reasons for this, ranging from the policies of their associations to business strategy and the expansion of activity to attract certain clientele.<sup>73</sup> Despite the savings and state banks practically being universal banks, they stuck to their so-called public mission, which was defined as a "provision of credit services" ("kreditwirtschaftliche Versorgungsfunktion") and intended as "an extensive provision of credit services, investment options and payments for private households, medium-sized businesses and the municipalities within the area covered by guarantor liability".<sup>74</sup> Attempts to reduce significantly the power of the leading institutions, i.e., the state banks, made some progress in the last couple of years, but were not yet over. All amalgamation attempts had, for the most part, met with political misgivings on the part of the federal States. On the other hand, the process of amalgamation that was particularly strong between 1973 and 1982 continued only at a modest pace after 1982 until German reunification; as a result, 583 savings banks were still in existence in 1989.<sup>75</sup>

In their capacity as universal banks, the credit cooperatives were supposed to promote their members according to bank practices, with the support of their regional central banks, the Deutsche Genossenschaftsbank (DG-Bank) as the top institution and the associated enterprises for special financial services. Their more than 12 million members were, at the same time, their shareholders. On top of this, they still had many other customers from the small and medium-sized business sector: entrepreneurs, farmers, self-employed and private persons. While previously the short- and medium-term business had dominated, the more long-term loans became more significant in the meantime. The initial structure of the cooperatives was threefold, with the DG-Bank at the helm and the regional central cooperatives supporting the local credit cooperatives. Since 1972, the *Volksbanken* and Raiffeisen banks

<sup>73</sup> Ehrlicher, *Wende*, pp. 342ff, and Pohl, *Institute*, p. 1175.

<sup>74</sup> Ehrlicher, *Wende*, p. 346 (the original quote is by Geiger).

<sup>75</sup> *Ibid.*, p. 347.

constituted a unified cooperative bank group. As a result of the process of concentration (5,481 banks in 1973; 3,823 in 1982; and 3,225 in 1989), only five of the original cooperative central banks were still in existence by 1989; this was because of amalgamations or the transfer of tasks to the DG-Bank. For these areas, only a two-step model remained. The level of credit rose by 344% between 1973 and 1989. Within the group, the relation between central cooperative institutions and credit cooperatives had hardly changed; about three quarters of total credit went to the credit cooperatives, while one quarter went to the central institutions, including the DG-Bank.<sup>76</sup> As early as 1989, the consultancy firm McKinsey came to the conclusion that the market share of the public institutions and credit cooperatives, particularly in the growth sectors of foreign and securities business, was too small at 37.9% and 17.8%, respectively.<sup>77</sup>

Savings banks and cooperatives had to provide massive support in the context of German reunification, which they did with a great deal of success by maintaining a regional focus. The partnerships between West and East German savings banks and credit cooperatives facilitated support in the areas of personnel, specialist qualifications and technical equipment. An East German Savings Bank and Giro Association was founded, while the East German credit cooperatives, with the exception of Saxony, became part of the existing West German associations. Mergers were necessary in both sectors.<sup>78</sup> New business areas, in particular the increase in forward transactions and derivatives, did not play a significant role for the savings banks and credit cooperatives; nor did the liberalisation of the European domestic markets or globalisation. Traditional banking business continued to be conducted in locally limited markets, with the exception of the big savings banks in the cities (Stadtsparkassen), if they were not prevented from doing this by competition from within, i.e., from the savings banks organisation.<sup>79</sup> Big savings banks like the Stadtsparkasse Köln developed

<sup>76</sup> *Ibid.*, pp. 348ff and Table 15, p. 342.

<sup>77</sup> Pohl, *Institute*, pp. 1177 and 1185, and Oellerking/Holzgrabe, *Sparkassen*, pp. 190ff.

<sup>78</sup> Hans E. Büschgen, "Währungsunion und Wiedervereinigung", in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*. (Frankfurt am Main, 1998), pp. 431-61; here: pp. 448ff.

<sup>79</sup> Pohl, *Institute*, pp. 1176ff.

independent strategies in Europe, such as catering for German clients living abroad, securities business for clients living abroad, investment banking, and serving foreign clients domestically. What is more, the savings banks were prevented from taking part in the big European operation because of the principle of regionalism and a lack of financial and personnel resources. To make matters more complicated for them, there was increased competition from foreign providers, as a result of freedom of entry. Cooperation with savings banks abroad was possible, however, as was participation in the European market, mainly via the state banks.<sup>80</sup>

The development of the credit cooperatives was similar to that of the savings banks. They followed a similar domestic market strategy. They, too, made every effort to expand, or at least to defend, their regional market position. At the European level, this happened by way of cooperation with central institutions and associations of the European cooperative organisation, or via the DG-Bank in London, Luxemburg, Zurich and Amsterdam. The foundation, in 1990, of the Banco Cooperativo Español in Madrid by the DG-Bank, along with 29 local cooperative institutions, the Cajas Rurales, was particularly innovative.<sup>81</sup> In 2006, there were 4,500 cooperative banks throughout Europe, all operating within their local markets via their 60,000 branches. They employed 650,000 people and had around 130 million customers and 47 million members. In total, they enjoyed about 20% of market share in Europe. However, they remained primarily focused on their respective domestic markets, their top business priority being the advancement of members and clientele, which continued to stem mainly from the small and medium-sized business sector and tended to be decentralised and small. For the credit cooperatives, hence, the EU is “not a playing field for market-conquering fantasies”.<sup>82</sup>

<sup>80</sup> Bernd Rudolph, “Die deutsche Kreditwirtschaft im europäischen Markt”, in: Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, (Frankfurt am Main, 1998), pp. 463-492; here: pp. 480ff.

<sup>81</sup> *Ibid.*, pp. 482ff.

<sup>82</sup> Christopher Pleister, “Ein “Ja” mit Gestaltungswille”, in: *Frankfurter Allgemeine Zeitung (FAZ)*, supplement: *Volksbanken und Raiffeisenbanken* Nr. 226, B1 28 September 2006. In *Die eigene Kraft zählt*, *ibid.*, B3, Peter Gleber claims that 1,300 of the 5,500 European credit cooperatives were located in Germany.

In terms of market share according to volume of business, the savings banks and state banks contributed 35.3% in late 2006, while the credit cooperatives covered 12.2% of the market. The volume of business of the savings banks and credit cooperatives was in a ratio of 3:1, as was the so-called *Mittelstandsengagement*, i.e., support of small and medium-sized business; in other words, the cooperative banks were in third place behind the commercial banks. Only in their support of small and medium-sized business were they in second place.

With regard to costs, however, neither the savings banks nor the credit cooperatives were able to keep up with the direct banks without branches. Another issue was the fact that the cooperative banks paid their individual employees much more than the private direct banks, because of their corresponding tariffs. Since 2007, the German savings banks have been employing 250,000 people in 16,000 offices, while the *Volksbanken* have 180,000 employees in 12,500 branches. 2,500 people worked for ING-Diba in three offices. Despite this, neither group currently has plans to create a direct bank. Nevertheless, the pace at which the savings banks, *Volksbanken* and Raiffeisen banks have merged has markedly slowed down in the past two years. Both groups minimise costs by developing central standard products.<sup>83</sup>

The legislative measures in 1958 and 1967 facilitated an intensification of competition from the 1960s onwards, particularly so in the 1970s. Both bank groups reacted accordingly, so that competitive advantages and disadvantages of both groups have cancelled each other out in the past few decades.<sup>84</sup> Concerning the central organisations, both bank groups have been having some trouble for some time: one group with regard to the amalgamation of state banks and the savings banks' participation in these mergers, and the other group with regard to the amalgamation of the Deutsche Zentralgenossenschaftsbank (DZ-Bank) and the Westdeutsche Genossenschaftszentralbank Düsseldorf (WGZ-Bank). In July 2005, the savings banks were no longer given guarantor liability by

<sup>83</sup> *FAZ*, 14 June 2007, no. 135, p. 15, and 28 September 2007, no. 226, p. 21.

<sup>84</sup> Gömmel, *Kreditgenossenschaften*, pp. 50ff.

the communities, municipalities and central institutions, although these did remain the savings banks' proprietors, and their representatives are thus still on the supervisory boards, i.e., these banks will still be dependent on political bodies in the future. It is a fact "that the savings banks are legally obliged to engage in business that their private competitors would presumably never engage in". Mayors and *Landräte* (chief district administrators) "like to use them to finance prestigious projects that no-one else would finance", and the state banks are strongly dependent on the savings banks, but also on the federal States and their governments. It is difficult to ascertain whether all this has led to the fact that the savings banks' return on equity is "pretty modest" at 10 percent.<sup>85</sup>

Compared to the other credit institutions, the savings banks, public banks, *Volksbanken* and Raiffeisen banks have the advantage of joint liability if one of the member banks gets into difficulty. In such a case, security funds can be secured to provide money to protect the affected bank from insolvency. Hence, these banks require no institution in charge of settling the legal minimum compensation.<sup>86</sup> Both institution groups cooperate with the German Federal Ministry for the Economy and Technology, the KfW and the Chambers of Commerce, via the business exchange scheme, which brings together company owners in search of successors and interested entrepreneurs.<sup>87</sup>

In the course of more than 150 years, thus, savings banks and credit cooperatives have become competitors for the same clientele with similar products and similar problems – compared to the commercial banks and, in particular, the direct banks. In the Federal Republic of Germany, both groups are about to undergo major structural changes at central and regional level. In Europe, they have been preparing for cooperation within their group.

<sup>85</sup> *FAZ*, 28 September 2007, no. 226, p. 21.

<sup>86</sup> *FAZ*, 18 September 2007, no. 217, p. 23.

<sup>87</sup> Sparkassen-Finanzgruppe. Deutscher Sparkassen- und Giroverband, *Märkte 2006*, p. 79.



# *Appendix*

Savings Banks and Credit Cooperatives  
in Germany: Competitors in the Same Markets  
for 150 Years?

<b>TABLE 1. Savings banks and credit cooperatives in comparison</b>								
	1910		1920		1930			
	Number of Institutes	Balance sheet total 1)	Number of Institutes	Balance sheet total 1)	Number of Institutes	Balance sheet total 2)	Savings deposits 2)	Long term loans 2)
Savings Banks	3,072	16.9	2,845	46.7	2,583	13.7	77.2	49
Credit Cooperatives	17,493	4.3	20,097*	12.5*	19,070	4.8	56.5	14.6

After: Ashauer, *Ersparungscasse*, p. 236, and Deutsche Bundesbank (ed.), *Deutsches Geld- und Bankwesen in Zahlen 1876-1975*, (Frankfurt am Main 1976), pp. 56 ff; figures are given 1) in billion marks, 2) in billion reichsmarks.

\* 1919

<b>TABLE 2. Share of savings deposits (30 June 1937)*</b>		
Savings Banks	15060.1 million RM	77.87%
Agricultural Credit Cooperatives	2087.9 million RM	10.80%
Urban Credit Cooperatives	843.9 million RM	4.36%

\* (Pohl, *Sparkassen*, pp. 179 ff)

<b>TABLE 3. Balance Sheet Total according to Bank Groups, 1913-38, %*</b>				
	1913	1929	1932	1938
Savings Banks	31	35	39	45
Cooperative Banks	10	10	10	10

\* Hardach, *Entstehung*, p. 35.

<b>TABLE 4. Share of Banks according to Bank Groups, 1913-38, %*</b>			
	1913	1929	1938
Savings Banks	13	12	11
Commercial Credit Cooperatives	7	6	7
Agricultural Credit Cooperatives	73	77	79

\* Hardach, *Entstehung*, p. 25.

**TABLE 5. Sum of Deposits and Loans of Non-banks, as well as Bond Circulation (Schuldverschreibungsumlauf), in billion DM**

End of Year:	1952	1955	1958
856 Savings Banks	10.3	20.8	34.3
13 Central Giro Associations	3.8	8.9	13.5
2,193 Credit Cooperatives	2.6	4.9	8.1
18 Central Credit Cooperatives	0.2	0.5	0.8
6 Big Banks, 109 Regional Banks and other Commercial Banks, 212 Private Bankers	12.4	20.4	32.0
Sum of all Banks	40.5	81.4	126.0

Source: Wolf, *Großbankengesetz*, p. 128; the remaining figures stem from mortgage banks, finance houses, banks with special areas, etc.

**TABLE 6. Savings Deposits: Market Shares of the German Banks (1950-1990, in percent)**

	1950	1960	1970	1980	1990	1990 <sup>1</sup>
Savings Banks <sup>2</sup>	67.18	63.49	59.68	52.74	52.67	403.142
Credit Cooperatives <sup>3</sup>	16.29	14.23	18.23	25.27	26.13	199.969
Commercial Banks	11.76	15.82	17.28	15.73	15.37	117.637
Other Banks	3.30	6.16	4.74	5.78	5.80	44.415

After: Schulz, *Sparkassen*, pp. 410ff.  
<sup>1</sup> in million DM;  
<sup>2</sup> Including Central Giro Institutions;  
<sup>3</sup> Including Central Credit Cooperatives. Cf. also Pohl, *Institute* p. 1184.

**TABLE 7. Market Shares of Universal Banks, based on Balance Sheet Total (1950-1988, in percent)**

	1950	1960	1970	1980	1988
Savings Bank Organisation <sup>1</sup>	41.8	51.1	50.4	49.2	48.3
Cooperative Institutions <sup>1</sup>	14.6	14.8	17.8	21.2	21.7
Commercial Banks	43.6	34.1	31.8	29.6	30.0

After: Pohl, *Institute*, p. 1175, & Oellerking/Holzgrabe, *Sparkassen*, p. 100.  
<sup>1</sup> including, respectively, central giro institutions, Central State banks and Central Credit Cooperatives.

<b>TABLE 8. Market Shares (at the end of 2006)*</b>			
	<b>Volume of business</b>	<b>Obligations/Deposits</b>	<b>Credits</b>
Savings bank financial group	35.3 %	39.1 %	38.4 %
Commercial Banks	29.3 %	31.7 %	24.9 %
Credit Cooperatives	12.2 %	18.1 %	15.0 %
Others	23.2 %	11.1 %	21.7 %

\* After: Sparkassen-Finanzgruppe. *Deutscher Sparkassen- und Giroverband, Märkte 2006*, p. 20.

<b>TABLE 9. Mittelstandsengagement (at the end of 2006). Market Shares in Percent*</b>			
	<b>Credit to Small and Medium-sized Business</b>	<b>Credit for Artizans</b>	<b>Credit to Small and Medium-sized Business Programmes by the KfW (Kreditanstalt für Wiederaufbau, federal credit bank for reconstruction)</b>
Savings and State Banks	44.1	67.7	42.5
Credit Cooperatives	14.6	18.5	29.2
Big Banks	15.5	6.6	13.3

\* After: Sparkassen-Finanzgruppe. *Deutscher Sparkassen- und Giroverband, Geschäftszahlen 2006*, p. 9.

*articles*

