

Corporate Governance of Banks: Germany

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1. The diversity of German industrial organisation

Germany has always represented a sharp contrast to Anglo-Saxon countries, in particular to the United States, in questions of industrial organisation and regulation. Since the question of corporate governance and control was first raised by Berle and Means (1932) with respect to conditions in the American economy, it is not surprising that the German approach to these questions is also divergent. These differences are perhaps even more evident with respect to the governance of financial corporations in Germany. This short essay attempts to highlight some of the basic reasons for these differences and why they are likely to remain.

In their famous book, Berle and Means were primarily interested in the impact of corporate governance on economic efficiency in US corporations. They contrasted the increasing dispersion in the ownership of common shares in incorporated industrial companies with the increased dominance of professional managers without ownership interest in the companies whose activities they controlled. This increasing separation of ownership from control of economic resources would create inefficiency if it meant that managers deployed resources to maximise their own personal benefit rather than to maximise the returns on the owners' equity investment. The economic benefits of market-determined allocation of resources were thus seen to depend on the efficient exercise of owners' control over the hired professional managers.

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The origins of the problem of the separation of ownership from control grew out of US anti-trust law introduced in 1890 in the form of the Sherman Act. The intent was to eliminate the power of large corporate trusts. As a result, the trusts not only had to be broken into smaller, competitive units, they also had to have new owners. This was usually achieved by making them joint-stock companies with shares widely sold to the general public. However, the trusts were soon replaced by large holding companies that preserved controlling interests through purchase of shares of the now private, independent companies, which replaced the trusts.

The German experience in the same period was almost the exact opposite. Instead of taking legislative actions to limit corporate trusts, German courts confirmed the validity of the contractual arrangements giving rise to industrial combinations which were being formed to compete in internationally open markets. Instead of being inimical to the efficient allocation of resources, cartel agreements were viewed as beneficial to avoiding over-investment and ruinous competition. This view was expressed after the first war in the creation of 'Konzerne' and 'IG' (Interessengemeinschaften – communities of interest), often involving cross holdings of equity.

Further, government has always played a more active role in economic affairs than in other countries. From the creation by the Prussian government of the Seehandlung (Overseas Trading Company), which eventually became a general holding company for state-owned enterprises and an enabling financial institution, to the nationalisation of the railways and the introduction of compulsory welfare measures when the pace of industrialisation produced rising levels of unemployed, such as sickness and pension benefits. It is interesting to note that these measures introduced at the end of the 19th century were limited to legislating compulsory contributions for sickness, old age, accident, etc. which were collected and managed by local friendly societies, organised on a basis similar to cooperative banks and local government savings bank. They thus responded to the Prussian Code of 1794 which gave the state responsibility for relieving the destitute and finding work for the unemployed, and yet preserved direct local control, avoiding charges of state socialism (cf. Henderson 1975).

In the late 19th century, legislation was introduced which required large German public limited liability companies (Aktien-gesellschaft – AG) to adopt a particular two-tier corporate governance

structure. The *Aufsichtsrat*, or supervisory board, had responsibility for the long-term planning and the control of the company. These directions were to be carried out through the decisions of the *Vorstand* or management board, composed of professional company managers appointed by the supervisory board.

Since German bank legislation permitted German banks to provide underwriting services as well as debt and equity capital to German industrial firms, the large German *Kreditbanken* were instrumental in providing funding and logistical support for the industrial cartels and combinations. Their active role in promoting industrial concentration is reflected in the presence of representatives of the large *Kreditbanken* on the supervisory boards of German companies. German banks also exercised influence because they often held large direct holdings of shares. But, more important was the fact that because of their role as brokers in the stock market, they were also the official custodians of shares held by corporate members of the industrial groups and for the holdings of private individuals. Since the banks had the proxy rights to shares in their custodial possession, they became both the financial organisers and guarantors of industrial combinations.

However, by the beginning of the century, the speed of the process of industrial concentration meant that not even the largest banks could provide all the financial services required of the larger combines, and in most cases effective control was shared by the managers and bank representatives.

Given Germany's extremely different approach to anti-trust and banking legislation, it is not surprising that there has been less interest in the issue of the separation of ownership from control and the impact of corporate governance on economic efficiency in Germany. Because of these differences, when it has been a subject of consideration, it has usually been with reference to the role of German banks as agents of corporate governance because of their direct ownership and indirect control of a majority of shares in industrial companies.

2. Banks and corporate governance of industry

The legal basis of the control of management by the banking system at the beginning of the century was the result of Germany's universal bank legislation. Although this legislation has been revised frequently, it still allows banks virtually unlimited portfolio investments in corporate equity. The banks have also maintained their large custody holdings of primarily bearer shares and the associated proxy rights. As of the end of 1994 around 63% of outstanding corporate equity was held in bank custody accounts¹ (Deutsche Bundesbank 1995a, p. 57), and thus under the indirect control of German banks for corporate governance purposes. As a result it is still true that officials of the large German banks are widely represented on the supervisory boards of large public limited companies, which have responsibility for the appointment of the management board comprising the professional managers of large public limited liability companies.

However, post-war revision of company law for public limited companies with less (more) than 2000 employees now requires a third (half) of the supervisory council be elected by employees of the company, and limited liability enterprises (GmbH) with more than 500 employees are now also subject to this two-tier structure. As a result, the role of bank officials as representatives of shareholder interests is diluted by the representation of employees on the supervisory boards. This division of responsibility is often cited as giving rise to a longer-term horizon in decision-making, but this objective was already present before employee representatives were added to the boards. However, the sharing of responsibility with worker representatives makes it necessary to blend the maximisation of long-term 'shareholder value' with the interests of employees. This gives rise to a system of maximisation of "stakeholder value" (cf. Deutsche Bundesbank 1997, p. 30), which may not produce the same management objectives. The representation of shareholder interests is further weakened by the fact that non-equity long-term bank borrowing dominates equity finance in most German firms. Indeed, bank lend-

¹ Since the proportion for debt securities is 98%, and given that a high proportion of shares of wholly-owned subsidiaries are held by the parent corporations, the proportion of the shares outstanding in the hands of the public held in bank custody accounts is probably considerably higher.

ing represents about twice the external funding to firms relative to equity financing. Thus, bank representatives are also 'stakeholders' in that they represent their own interests as long-term lenders to the firms. From the point of view of corporate governance, the banks thus represent a complex of shareholder and stakeholder interests. However, it is likely that their interests as bondholders are coincident with their interests as shareholders.

This system of shared corporate governance is only operative in larger companies representing about one third of total turnover. The majority of German industrial companies are small- and medium-sized companies, which may be joint stock companies, but are either not quoted on exchanges or are not sufficiently large to require the two-tier governance structure. The importance of the problem of corporate governance in Germany is further minimised by the fact that of around three million existing enterprises, only about 3300 (representing some 20% of total turnover) are public limited companies (AG), and only around one sixth of these are quoted and available for purchase and sale by the general public on official stock exchanges. Of the half million private limited joint stock companies (GmbH) most do not even issue share certificates (see Deutsche Bundesbank 1997 and *Euromoney* 1996). This low rate of stock market listing of public limited companies is evidenced in the distribution of share ownership in Germany. Rather than institutions or individuals holding the majority of shares, in Germany it is companies themselves. This reflects the past history of industrial combinations, and means that the question of corporate governance is rather different from the relation between private individuals as shareholders and large companies dominated by professional managers suggested by Berle and Means (1932).

Since the majority of firms in Germany are of small- and medium-size, and given their form of incorporation, they are governed and managed more or less directly by their owners, for them there is neither separation of ownership and control, nor a problem of principal and agent to be resolved. The relative unimportance of equity financing in German industry for both quoted and non-quoted companies can also be seen in the important share of own funds in the financing of investment. Own funds of German enterprises rose from 66% of tangible fixed assets in 1992 to 71.5% in 1995. Own funds as a share of the total balance sheet value of enterprises were in the range of 18% (Deutsche Bundesbank 1996, p. 44). Borrowing is usually from banks and is usually long-term.

TABLE 1

PERCENTAGE OF SHARES IN CIRCULATION HELD BY DIFFERENT SECTORS
(end 1995)

	USA	Japan	Germany	France	UK
Households	36.4	22.2	14.6	19.4	29.6
Enterprises	15.0	31.2	42.1	58.0	4.1
Public sector	0.0	0.5	4.3	3.4	0.2
Total non financial	51.4	53.9	61.0	80.8	33.9
Banks	0.2	13.3	10.3	4.0	2.3
Insurance	31.3	10.8	12.4	1.9	39.7
Investment funds	13.0	11.7	7.6	2.0	10.4
Total financial	44.5	35.8	30.3	8.0	52.4
Rest of world	4.2	10.3	8.7	11.2	13.7
Total	100	100	100	100	100

Source: Deutsche Bundesbank (1997, p. 29).

TABLE 2

% OF EXTERNAL FUNDING OF PRODUCING ENTERPRISES (YEAR-END VALUES)

% of total	1970	1980	1990	1995
Bank loans	46.8	51.4	47.8	48.5
Shares	27.5	19.3	23.2	26.9
Pension funding	4.6	7.0	7.6	6.9

Source: Deutsche Bundesbank (1997, p. 31).

3. Corporate governance of German banks

Just as the organisation of German industry differs from the Anglo-Saxon model, so does the industrial organisation of the German financial system. Indeed, only a small proportion of the financial sector can be said to be subject to the same problems of corporate control raised by Berle and Means, but this is for a much different reason than in industry. It is rather because the majority of credit institutions are organised under public law and government-owned. Of the 3520 credit institutions reporting to the Bundesbank (cf. Table

3), 2517 are credit cooperatives. They are the descendants of the *Volksbanken*, better known in Italy as *banche popolari*, and *Landschaftsbanken*. The former comprise Raiffeisen and Schulze-Delitzsche institutions created in the last half of the 19th century with each member receiving one share, irrespective of the size of his deposit. The latter, organised about the same time in Prussia on the same principles, lent against land. Their activities are coordinated at the regional level by separate giro-clearing organisations and these are linked to the Deutsche Genossenschaftsbank at the national level. In this way they offer a full range of universal banking services to their clients. These banks are thus owned and operated by their depositors.

TABLE 3

GERMAN CREDIT INSTITUTIONS REPORTING TO DEUTSCHE BUNDESBANK
(end-November 1996)

Credit institution category	Number	Turnover DM billion	Non-bank deposits	Capital & reserves
Commercial banks	331	1983.9	709.6	122.7
Big banks	3	759.6	346.3	54.8
Regional & other commercial banks	193	1061.2	323	62.4
Branches of foreign banks	72	109.7	10.1	2.2
Private bankers	63	53.3	30.1	3.4
Regional Giro institutions	13	1499.7	324.5	49.0
Savings banks	607	1584.9	1063.8	62.9
Credit cooperatives*	2517	1226.7	707.4	54.3
Mortgage banks	34	1113.0	280.2	26.0
Special institutions	18	779.1	312.5	24.6
Memo item: foreign banks	153	338.9	78.4	15.6
Commercial, private & mortgage	81	229.2	68.4	13.5
Total reporting credit institutions	3520	8187.3	3398	339.5

* Includes Deutsche Genossenschaftsbank, the central clearing bank for the cooperative banks and the regional clearing banks.

Source: Deutsche Bundesbank (1997, pp. 20-21).

The 607 savings banks (Sparkassen) remain after consolidation of over 3,000 formed by local authorities since the end of the 18th century. For transactions and other services they are organised inde-

pendently of the private banks on a regional basis through central savings institutes better known as *Landesbanken*, and on the national level by the Deutsche Girozentrale. These banks are presented in Table 3 as the 13 regional Giro institutions. With the creation of the Reichsbank in 1875 the individual state banks (*Landesbanken*) eventually lost the right to issue notes, but retained their role as bankers to state government and to the savings banks. Savings banks operate as commercial banks, and through the regional Giro organisations operate a full range of universal banking services. They are owned and guaranteed by government and provide competition at the national level with the largest commercial banks.

In difference from cooperative bank lending against land, the 34 mortgage banks, which may be organised under either public or private law, have been subject to special legislation since 1900. They raise their funds through the issue of a special mortgage bond (*Pfandbriefe*). Most of the private banks in this category are wholly owned by larger banks.

This leaves 331 commercial banks organised under private law. But 63 are sole proprietorships or limited partnerships directly controlled by their owners, others are 100% owned and controlled by other banks and some may have public sector owners or are subsidiaries of foreign bank groups.

Since such a large number of public limited banks have government as their complete or majority shareholders, the major problem of corporate governance of banks in Germany is whether the same separation of ownership and control is present for government shareholders as for private shareholders. On the other hand, the banks with a majority of private shareholders which might be considered as being subject to the traditional problems of corporate governance may be estimated at around 5% of the total.

The Bundesbank reports that the ratio of equity to total financial resources of the overall financial sector was about 5% at the end of 1995. This may be compared to the 27% equity for productive enterprises. The equity of financial sector enterprises accounted for approximately 30% of the volume of shares in circulation, but the majority was equity of insurance companies (DM 240 billion) relative to credit institutions (DM 175 billion). As in the non-financial sector, a large proportion of the shares issued by financial sector firms are held as cross holdings or participations in other financial companies. The Bundesbank (1997) estimates that around one third of bank

participations represent cross shareholdings. And of these, around one third are accounted for by the three largest private banks.²

Thus the question of the separation of ownership and control in German banking is primarily represented by the three 'big banks': Deutsche Bank, Dresdner Bank and Commerzbank, and two originally 'regional' banks which now operate on a national scale, Bayerische Vereinsbank and Bayerische Hypotheken- und Wechselbank (Hypobank). These are the five largest privately-owned German banks which fall in the category of public limited companies with exchange-listed shares.

Examples of arm's-length relationships within the financial sector are the 22% of Dresdner Bank and the 5% of Deutsche Bank held by the insurance giant Allianz. It is the largest shareholder in both banks, although it has declared that it is not interested in exercising any direct influence on bank management (see *Euromoney* 1997).

Aside from these strategic holdings, the shares of the 'big three' banks follow the American model and are widely dispersed. For example, Deutsche Bank reported 286,000 shareholders as of December 1995. The proportion held by institutional investors was 63%, but around two thirds of this represents foreign institutional investors. Private individuals held 27% (of which 2.5% employee holdings). 10% of shares are listed as being held by self-employed, but these may include company investors (Deutsche Bank 1996). The shares of Commerzbank are also widely dispersed amongst 190,000 shareholders. Half are held by institutions, 41% by private investors and 9% by self-employed. The largest individual shareholder is Banco Central Hispanoamericano S.A., Madrid at under 4% (Commerzbank 1996). Dresdner Bank has 464,300,000 shares outstanding which

² For example, the 1995 Deutsche Bank *Annual Report* lists 324 related companies which are consolidated in its accounts for reporting and balance sheet accounting purposes. Over 90% of them are 100% participations. There are four regional German mortgage banks in this group. There are an additional 356 companies which are not consolidated for balance sheet purposes. Over 90% of these companies are also 100% owned. There are an additional 14 associated companies (all but one of 50% or lower participation), and 17 companies participation in which is considered too small to include in the balance sheet, all of which are 50% or below. Finally, there are 24 companies in which the bank holds 20% or more of capital as portfolio investments. These include one mortgage bank.

In addition to its subsidiary financial companies, Commerzbank includes two mortgage banks, a savings bank and two private banks amongst its consolidated holdings. It also has a 3% interest in Banca Commerciale Italiana.

were capitalised at 18.9 billion on 31 October, 1996 and shows the most concentrated ownership. In addition to the 22% Allianz holding, it has two other shareholders with holdings larger than 10%.

Bayerische Vereinsbank and Bayerische Hypotheken- und Wechselbank – Hypobank complete the list of the top five privately-owned public limited banks. The Bayerische Vereinsbank, based in Munich with capital of DM 8.8 million, also controls 75% of Vereins- und Westbank, Hamburg, the largest private regional bank in Northern Germany with a capital base of just over DM 1 million, as well as 100% ownership of three public limited banks, and three mortgage banks in addition to affiliates and subsidiaries. The bank, which operates as a universal bank, reports 125,000 shareholders, 14,000 of which are institutions accounting for 39% of the share capital against 28% private holders and 18% foreign.

The Bayerische Hypotheken- und Wechselbank (Hypobank) also located in Munich was founded in 1835 and is the oldest German universal bank and the fifth largest private bank. Along with Vereinsbank it is among only three banks in Germany which are permitted to operate in both commercial and mortgage banking. In addition to its direct subsidiaries, it also owns a private bank in Munich, a private universal bank and a mortgage bank in Westphalia and a mortgage bank in Württemberg. Hypobank reports 90,000 shareholders for its 25,705,296 outstanding shares. Other financial institutions hold 68% of the shares and private individuals 21%. All of the top five privately owned banks have arrangements for Level 1 US depository receipts.

As bank bonds tend to dominate the German fixed interest market (until the sharp increase in government debt after German unification), bank shares represent a relatively small part of the market for traded shares. Nonetheless, Deutsche Bank's 498,434,290 DM 5 par value shares, with a market value of approximately DM 34 billion, represented just over 4% of German stock market capitalisation at end 1995 and had the third highest trading turnover on German stock exchanges in 1995, accounting for 8.9% of total domestic sales. Commerzbank's 38,505,380 DM 50 par value shares were capitalised at DM 13.1 billion at the end of 1995. At 2% of market turnover, Commerzbank's shares were 14th highest in trading turnover, and represented nearly 1.5% of market capitalisation. Options on Deutsche Bank's equity were the most traded contracts on the DTB, the German Futures and Options Exchange (*Euromoney* 1996).

The top five private banks with public limited charters do not exhaust the group of banks that operate nationally as full-scale universal banks, as there are a number of public law banks owned by regional government or other public bodies through full equity or golden share arrangements. The ten largest German banks include five banks under public ownership. The largest is the WestDeutsche Landesbank which in terms of assets ranks just after the big three. It operates not only as a universal commercial bank specializing in wholesale banking, but also serves as the central institution of the savings banks (Sparkassen) in Oberrhein-Westphalia and Brandenburg. In addition it plays the role of Oberrhein-Westphalia's state bank and, as such, is a provider of financial services to that *Land*. The bank was founded in 1969 through the merger of two older institutions, the Landesbank für Westfalen Girozentrale (Münster) and Rheinische Girozentrale und Provinzialbank (Düsseldorf). It is a public law institution owned and guaranteed by the state of Oberrhein-Westphalia, the two regional associations, and the two savings banks and Giro associations of the Rheinland and Westphalia-Lippe. Most of the banks, originally founded by the regional governments to finance public sector investment and housing projects and to service local and regional savings banks, now operate as universal banks and many have public limited status.

Indeed, the relative dominance of the German banking system by publicly owned banks raises another problem. Many of the regional (*Land*) banks benefit from implicit government guarantees or regional government funding. The result is a top credit rating, which reduces the costs of funds raised in private markets. Private German banks have recently raised this issue as a distortion of competition and as being in breach of EU competition regulations (cf. Tucker and Fischer 1997). Some of these, such as WestLB, which is the fourth largest German bank, operate internationally in much the same way and in the same markets as the large private German universal banks. Not only is this in contradiction with EU competition legislation, but also runs counter to the logic behind the Basle and EU Directives on bank regulatory capital. The basic idea behind these regulations is that as banks undertake more risky activities, they should be disciplined by the market applying higher risk premiums and thus increased costs of funding. If a bank has a regional government guarantee, its funding costs will be independent of risks and thus outside any market discipline. These banks thus have no discipline from value

maximising shareholders nor from risk adjusting market lenders. This raises a rather different problem of corporate governance from that normally associated with the question of the separation of ownership from control.

As in other countries, there has been a process of concentration and privatisation of banks. For example, the Bank für Gemeinwirtschaft which was originally owned by a combination of trade union and cooperative groups is now in private ownership. In addition, a new form of mixed public-private bank has appeared as public credit institutions and private sector banks have reorganised in the form of a public limited company, such as Bankgesellschaft Berlin AG which is the first of this kind in Germany. It represents the merger of the private Berliner Bank AG, the Berlin Hyp, a mortgage lender, and the Landesbank Berlin, a regional bank.

4. Conclusions

Thus, just as in the case of the governance of German corporations, the problems surrounding the governance structure of German banks differ from that found in most Anglo-Saxon countries. This is basically because the dominance of publicly-owned banks raises the issue of the governance by public sector owners, and the impact of the implicit credit guarantees that are associated with such ownership. On the other hand, the largest of the private public limited company banks that operate internationally increasingly resemble their counterparts in the Anglo-Saxon countries. They have a widely dispersed share ownership, which suggests the possible existence of similar problems of corporate governance to those found in the US and the UK. However, even for these banks the question of maximising shareholder value versus management interests is complicated by the legal representation of some stakeholders (employees) through the two-tier structure of supervisory and management boards.

There is a further difficulty, not common to Anglo-Saxon discussions of corporate governance, raised by the role of bank custody accounts. A study by Gottschalk (1988, cited in Edwards and Fischer 1994, p. 217) reports that 60.4% of the votes in the 1986 meeting of Deutsche Bank shareholders were controlled by the big banks, either directly through ownership or indirectly through custody account voting privileges. Deutsche Bank itself controlled 47.2% of its shares

voted at the meeting. The figures for bank-controlled shares at the annual shareholder's meetings of Dresdner Bank and Commerzbank were 64 and 60.8% respectively. The figures for each bank's control of its own shares voted was 47.1 and 34.6% respectively. However, given the large increase in ownership by foreign institutional holders, who are more active in exercising their corporate governance rights through giving proxy vote instructions, this problem has now been greatly reduced for the larger banks. Nonetheless, it may still remain for the smaller private banks and the owned-subidiaries.

A rough indication of the representation on the bank supervisory boards of the private banks is given by composition of the boards of Deutsche Bank and Commerzbank. Of the 10 representatives elected by employees on the Deutsche Bank supervisory board, eight are Deutsche Bank employees. Allianz has one representative on the Board, and the other shareholder elected representatives are from German industry (usually chairs of supervisory or management boards), none are from companies among the shareholdings of the Deutsche Bank itself. The Commerzbank supervisory board includes 8 bank employees, two financial sector trade union officials, eight representatives from supervisory or management boards of industrial companies and an independent. It is unclear whether the shareholder representatives from private industry face the same conflicting objectives as bank representatives on industrial company boards. Since long-term bank lending represents such a large part of company borrowing, it may be true that the companies represented on the boards are not those in which the banks hold equity interest, yet they may be those companies which benefit from long-term lending relationships with the banks or for which the bank serves as 'Hausbank'. The corporate members of the supervisory board may thus also have a stakeholder interest in the bank's management which is more important than a shareholder interest.

It is difficult to evaluate the differences between the efficiency of public versus private corporate governance structures. It is usually presumed that public-sector owners have less difficulty in transmitting their objectives to their agent/managers since these objectives are usually not maximising shareholder value. What this really appears to mean is that if returns are not used to measure performance, it is easier to mask the use of resources for the benefit of management. Conflicting objectives between owners and managers may thus be easier to hide.

On the other hand, if the efficiency of corporate governance has an impact on profitability, one would expect that non-quoted private limited companies and private partnerships would have better performance than public limited companies. The following figures (Table 4) provide a rough means of comparing the performance of different categories of German credit institution. They present first the ratios of operating income (defined as net interest and net commission income less general administrative expenses plus trading and investment income) to overall turnover as reported by the Bundesbank.

TABLE 4
OPERATING RESULTS BEFORE NET INCOME OR NET CHARGES FROM CHANGES
IN ASSET VALUATIONS
(as a % of turnover)

Category of credit institution	1993	1994	1995
Big banks	1.45	0.96	0.76
Regional & other commercial	1.12	1.08	1.00
Branches of foreign banks	0.57	0.36	0.27
Private bankers	1.25	1.00	1.01
Regional Giro institutions	0.42	0.44	0.40
Savings banks	1.32	1.51	1.35
Regional institutes of credit cooperatives	0.60	0.94	0.58
Credit cooperatives	1.23	1.28	1.15
Mortgage banks	0.45	0.45	0.46
Special credit institutes	0.46	0.42	0.42
All banks	0.93	0.91	0.81

Source: Deutsche Bundesbank (1996, p. 37).

Table 5 presents figures for pre-tax profit per bank category divided by year-end capital and reserves, again as reported to the Bundesbank. These represent an attempt to proxy return on shareholders equity.³

³ These figures are only rough proxies, using the available data by bank category. They should be compared to the return on capital figures reported by the Bundesbank of 13.80% for 1992 (1994, p. 29), 13.62% for 1993 and 11.73% for 1994 (1995b, p. 30) and 12.68% for 1995 (1996, p. 27), only for the all bank category. An alternative comparison is the return on equity given in the annual reports of Deutsche Bank of 10.1% for 1995, 14.1% for 1994, 12.1% for 1993, and 10.3% for 1992. Commerzbank reports 8.6% for 1995, 11.2% for 1994 and 7.6% for 1993. This suggests that the 1995 figure given in Table 5 understates the actual return. This may be partially explained by the fact that for 1995 Deutsche Bank presented its accounts according to international accounting standards, causing an increase in reported reserves.

TABLE 5
ESTIMATE OF PROXY FOR RETURN ON EQUITY OF GERMAN CREDIT INSTITUTIONS
(profits before tax as a % of capital and reserves)

Category of credit institutions	1993	1994	1995
Big banks	10.44	10.36	7.73
Regional & other commercial banks	9.86	8.89	9.30
Branches of foreign banks	6.70	4.83	4.97
Private bankers	11.08	8.59	6.97
Regional Giro institutions	7.15	6.41	7.45
Savings banks	22.31	18.16	21.24
Regional institutes of cooperatives	5.12	11.76	2.07
Credit cooperatives	20.72	15.72	17.61
Mortgage banks	13.15	11.23	11.76
Special credit institutes	5.57	6.07	8.08
All reporting banks	12.78	11.31	12.11

Source: Own calculations on data from Deutsche Bundesbank 1994b, 1995, 1996 and issues of 1996 (April) Table IV.3, 1995 (April) Table IV.3, 1994 (March) Table IV.13.

These figures do not suggest that private bankers, who are presumably closer to owner-managers than the big banks, generate higher returns due to more efficient corporate governance. However, there is a substantial difference in returns between big banks and regional and other commercial banks relative to the regional Giro banks where public-sector ownership tends to dominate. But this difference may simply reflect the different objectives of public relative to private owners, rather than the efficiency of corporate governance structures. It is interesting to note that the highest returns are in the co-operative banks and the savings bank, but this may just represent the impact of capital costs and local advantages. Given the statistics available here, it is extremely difficult to draw any direct conclusions, except that as the German banking system becomes increasingly international, and as the process of concentration continues, the problem of corporate governance of banks will come to be of increasing importance.

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