# FINANCIAL CENTRE FOCUS

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# Banking sector employment in Frankfurt – Consolidation remains limited

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With the establishment of the European banking supervision in Frankfurt and the creation of the first renminbi trading centre in the euro area, Frankfurt's position in competition with other international financial centres was given a lasting boost. Despite the challenges for the banking sector the financial centre of Frankfurt continues to act as a strong magnet for both domestic and international players. Consolidation as a result of the crisis is progressing in waves and is modest in nature. By the end of 2013, employment in Frankfurt's banking sector was 4 % below its pre-crisis level, while the workforce in London's financial services industry was somewhat higher than in 2008 (+1 %). By contrast, the financial district of Paris experienced significant crisis-induced personnel reductions (-7 %). For the end of 2016, we expect slightly more than 60,000 banking employees in Frankfurt. On the basis of the most recent figures, this would mean a further 2 % fall in local staff capacity (around -1,000 jobs).

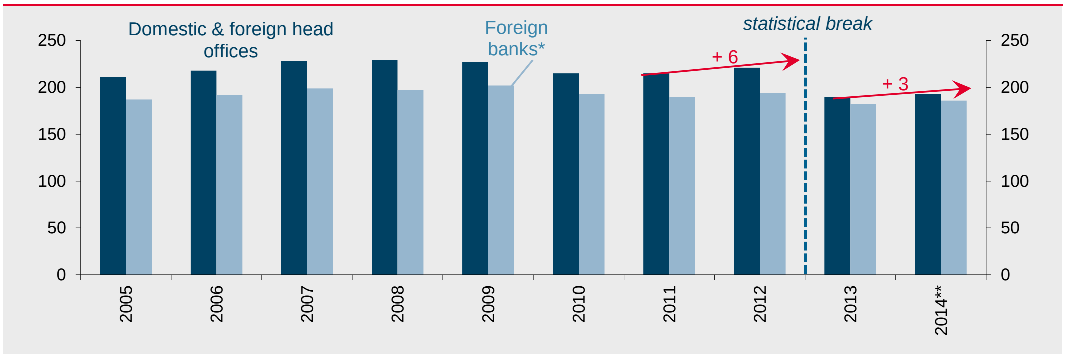
The situation of financial institutions in Germany and Europe remains challenging. By significantly raising its equity and reducing risks, the German banking system has become more transparent and robust. However, due to interest rates remaining very low, there continues to be pressure on earnings. In addition, more stringent regulation and supervision is increasing the costs for banks in Germany.

With its wide variety of qualities as a location, Frankfurt is an internationally attractive financial centre that enjoys considerable appeal for many domestic and international players. Despite the consolidation in the sector, Frankfurt still boasts a substantial number of institutions and the trend is rising. This is because there was a rapid turnaround after a limited crisis-related dip from 2008 to 2010. Since then, except for a one-off statistical effect, the number of banks in Frankfurt has once again been on the rise.



## Enduring attractiveness of Frankfurt as a banking hub

Number of banks in Frankfurt (year-end totals)




* Headquarters and representative offices of foreign banks; ** Q3 2014
Sources: Deutsche Bundesbank, Helaba Research

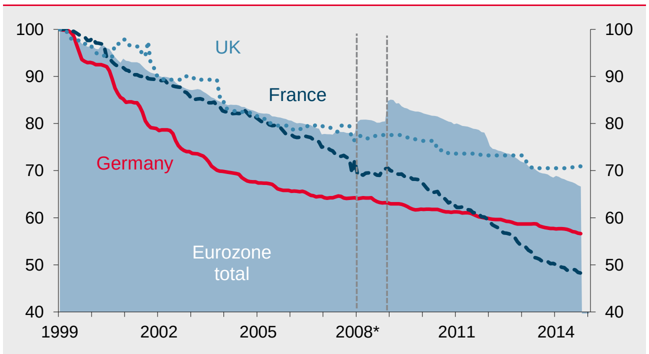
In the third quarter of 2014, 193 banks maintained headquarters in Frankfurt, of which over three quarters were foreign institutions. Overall, 186 foreign banks had a presence in the German financial centre. While the number of representative offices has declined slightly over the last few years, more and more foreign players have elected to establish an operating branch (most recently 34 and 152, respectively). After all, Frankfurt is a predestined location for tapping business potential in the important German economy as well as in the surrounding European countries. Moreover, the significance of the German financial centre has grown as a result of two fundamental landmark decisions in particular: Both the establishment of the European banking supervision as well as the creation of the first renminbi trading centre in the euro area have given Frankfurt a lasting boost.

Rapid recovery in number of banks in Frankfurt contrasts with European trend

The rapid recovery in the number of banks in Frankfurt, after it dipped as a result of the crisis, is all the more remarkable against the backdrop of developments across Europe: The number of banks in the eurozone has been on a downward trend, in spite of the expansion of the common currency area, and had fallen since 1999 by more than 30 % to around 6,500 monetary financial institutions by the autumn of 2014.[1] In the same period, the German banking sector saw a reduction of 40 %, i.e. above the Euroland average, and in France, for example, it was even more significant at 50 %. In contrast, the number of monetary financial institutions in the United Kingdom has shrunk by a total of 30 % since 1999, albeit on a low level. Most recently, there were fewer than 400 banks, compared with at least 900 in France and around 1,800 in Germany.

## Number of banks in eurozone shrinking significantly

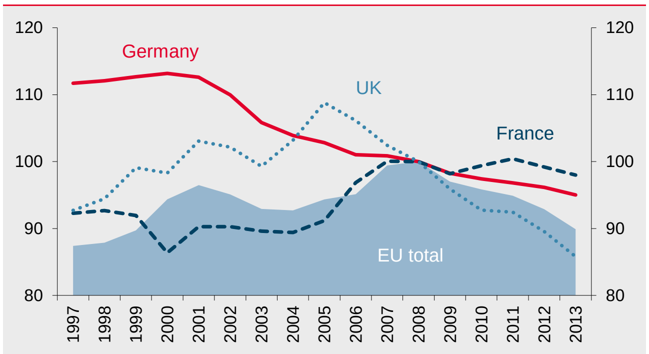
Number of monetary financial institutions, 1999 = 100




* Structural breaks; Sources: ECB, Helaba Research

## European banks engaged in downsizing for years

Employees of domestic banks, 2008 = 100




Sources: ECB, Helaba Research

Banking employment particularly falls in UK as a result of the financial crisis

Over the last couple of years, many jobs have been lost as the number of banks has been in decline in Western Europe. In the period of 2008 to 2013, around 10 % of jobs in domestic EU banks were slashed so that an annual average of approximately 3 million banking employees remained in 2013 (9 % reduction in the eurozone to around 2 million). Since the onset of the financial crisis, the decrease has been particularly acute in the United Kingdom, at 14 %, while in Germany it has been a modest 5 % and in France only 2 %. In this way, the average number of employees in domestic financial institutions amounted to around 650,000 in Germany, 420,000 in the UK and 415,000 in France last year.[2] Accordingly, employment density was 8 banking employees per 1,000 inhabitants in Germany versus 7 in the United Kingdom and France, respectively.

However, consolidation had set in long before the financial crisis broke out. For instance, banking sector employment in the United Kingdom had been on the wane since 2005 and layoffs there meanwhile represent a reduction of more than 20 %. German banks have already streamlined their staff capacities by a substantial 16 % since the bursting of the dotcom bubble at the beginning of the millennium. This stands in stark contrast to their French counterparts who had initially noticea-

[1] The time series contains statistical breaks due to changes in the underlying definition (e.g. today there are 18 member states whereas it was based on an original number of 12) or due to regulatory adjustments. Essentially, the definition of a bank by the European Central Bank ("Monetary Financial Institution", or MFI) is described in much narrower terms than that of the Deutsche Bundesbank for credit institutions.

[2] These ECB employment data deviate slightly from national data, e.g. of banking associations.

bly boosted their recruitment for years (2000-2007: +16 %) before the financial crisis led to a wave of ups and downs in staff numbers (most recently since 2011: -2 %). So much for the national banking employment picture – but how is it particularly reflected in the large financial centres?

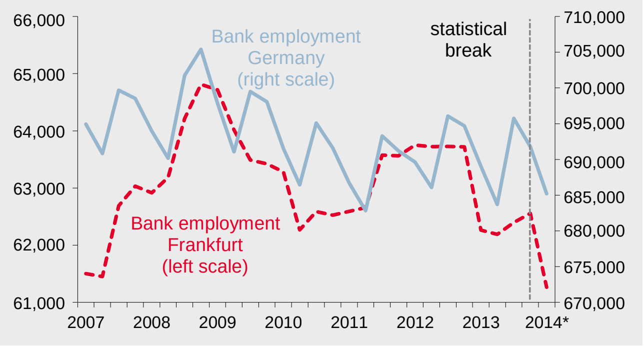
### The banking centre of Frankfurt: Employment trend in waves

Around 62,500 bank employees in Frankfurt at end of 2013

Banking employment in the financial centre of Frankfurt generally follows a different pattern than that of Germany as a whole. This is because there has been no discernible long-term downward trend in Frankfurt but, instead, it is characterised by a notable cyclicality or sensitivity to prevailing trends in the sector. As an immediate reaction to the financial crisis, there were "net" losses of 4 % or around 2,500 jobs in Frankfurt's bank towers between the end of 2008 and mid-2010 (Germany as a whole: 3 % or 19,000). Thereafter, however, there was a expansion in the workforce in Frankfurt of more than 2 %, or almost 1,500 jobs, by the start of 2012. After temporarily settling at a level of over 63,700 banking employees, there was a brief decline at the beginning of 2013. In the spring of the same year, the situation began to stabilise and there was even slight growth with the result that, by the end of 2013, 62,500 people were employed in Frankfurt's banking sector. The decrease at the start of the current year can be attributed to a one-off effect (reclassification of a company).

Downward trend in Germany, stronger cyclical effect in Frankfurt

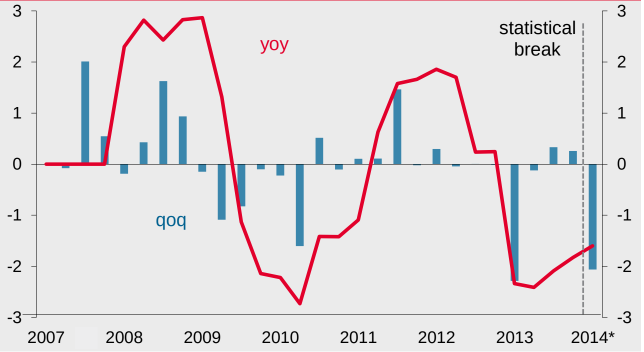
Employees subject to mandatory social insurance contributions




Sources: German Federal Employment Agency, Deutsche Bundesbank, Helaba Research

Staff reduction modest in the Rhine-Main area

%




Sources: German Federal Employment Agency, Deutsche Bundesbank, Helaba Research

As can be seen, crisis-induced consolidation in the German banking centre has progressed in waves and, overall, has been modest in nature. Thus, at the end of last year, there were only 2,300 fewer jobs in Frankfurt's banks than at the end of 2008 (Germany: -13,600) – a remarkably limited level of consolidation, especially considering the intensity of the global financial and economic crisis.

### Frankfurt's banking sector employment within European peer group

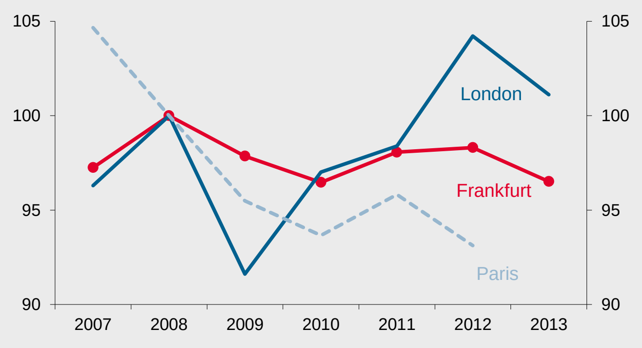
How has the job market in other European financial centres fared? A comparison can be made by using official data from national statistical offices, even if they differ somewhat by geographic scope and content.

On-going staff reduction in Paris, strong fluctuations in London

For many years, there has been a noticeable reduction in staff capacity in the Parisian financial sector and this amounted to 7 % in the period from 2008 until 2012 (most recent data). By contrast, in London's financial services industry there was a jump in redundancies in the year directly after the crisis broke out (2009: -8 %), a situation that was facilitated by British employment law permitting employers to lay off their staff at rather short notice. Shortly afterwards, though, an increasing number of new jobs were created and financial sector employment on the Thames had grown by 14 % by 2012 before shrinking once again in 2013 by 3 %. However, there is an important caveat when considering the development in London. Survey and model-based time series from other sources indicate a further slight upward trend in employment, both for 2013 as well as 2014. Despite the fact that, apart from deviating sampling methods, it is also important to take into account differences in definitions in this case, the three different data series for London nevertheless show a similar fundamental trend – a rapid recovery after a marked trough in 2009.

### Volatile spikes in London, fall in Paris

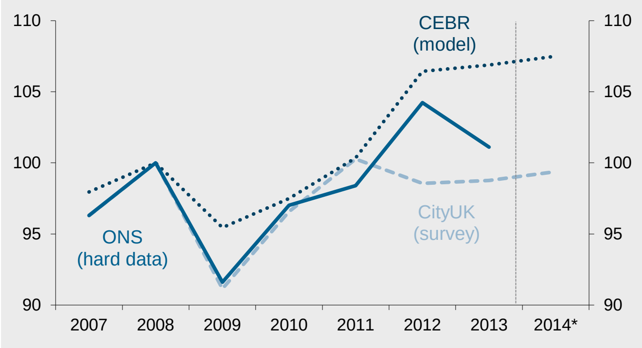
Employment in financial and banking sectors* (year-end), 2008 = 100




* Frankfurt: Banks versus London and Paris: financial services industry
Sources: German Federal Employment Agency, Deutsche Bundesbank, ONS, Insee, Helaba Research

### London: Rapid recovery after 2009 collapse

Employment in London's financial sector, 2008 = 100




* Forecast
Sources: ONS, CEBR, CityUK, Helaba Research

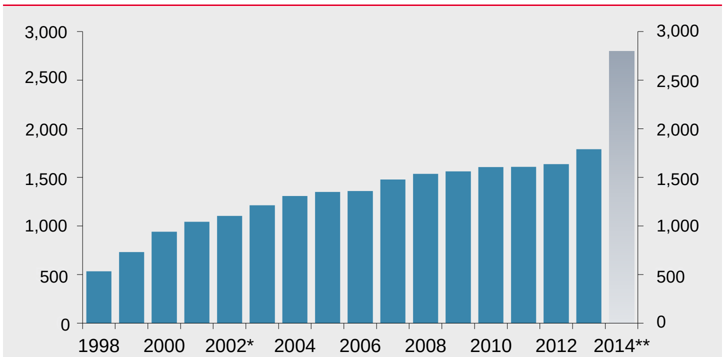
The development in Frankfurt, when compared with the two other principal banking centres in Europe, ranks in the middle of the pack. After all, the labour market here reacted in an overall modest way to the global financial market crisis. In this respect, employment in Frankfurt's banking sector had only fallen slightly below its pre-crisis level by the end of 2013 (-4 %), while there were somewhat more employees in London's financial services industry than in 2008 (+1 %) and the financial district of Paris suffered a more significant drop in staff numbers (-7 %). In this regard, the German financial centre came through the crisis relatively unscathed.

## Redundancies in Frankfurt to remain modest

The consolidation process in the banking sector has not ended yet. Even though there has not been much in the financial press about it of late, many a bank continues to make significant adjustments to their personnel capacities. However, 2014 should end with employment in Frankfurt's banking sector having developed comparatively strongly.

### ECB as guarantor for employment – large boost over

Number of employees (year-end totals)




* Full-time equivalents, ** Estimate;
Sources: ECB, Helaba Research

Around 1,000 new jobs at ECB in 2014

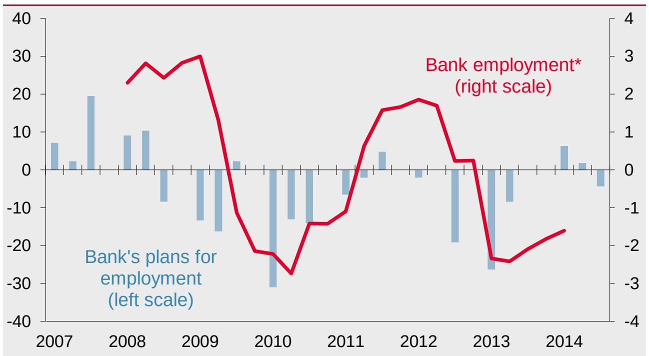
The reason for this can be found in a one-off effect that has made itself felt in the German financial centre – the expansion of the European Central Bank (ECB) into the primary supervisory authority for banks in Europe. This mammoth project, involving the recruitment of around 1,000 new employees, has been underway since the beginning of 2014 and has meanwhile been almost completed. National supervisory authorities have provided the majority of these new ECB employees and, in any case, will continue to be responsible for supervising most banks in the euro area. This has also led to a significant need for new staff at the Bundesbank in Frankfurt, which has not yet been met due to the rapid nature in which the new supervisory mechanism was put in place. At the ECB, its own history and that of other EU institutions suggests that there will be a further slight rise in staff capacity there in the years to come.

Subdued earnings situation weighs on sentiment

With the exception of the ECB, the mood in the skyscrapers of Frankfurt's banks is rather gloomy, however. Their earnings situation remains under pressure from extremely low interest rates as well as high costs in the course of tightened regulatory and supervisory requirements, which will result in cost cutting measures, e.g. to the payroll. This is also reflected by sentiment indicators of the Chamber of Commerce and Industry (IHK) as well as the Center for Financial Studies (CFS). Both surveys give clues as to the employment situation in the banking centre of Frankfurt, but are more of a momentary snapshot of the sentiment rather than leading indicators looking far into the future. Additionally, in the case of the CFS indicator, it should be noted that, although the focus is on Frankfurt, some respondants are based at other German locations. Around 80 % of the participating banks are headquartered in Frankfurt.

**Frankfurt's banks cautious about staff levels**

IHK survey, net balance of opinions — % yoy




* One-off effect at the beginning of 2014

Sources: IHK, German Federal Employment Agency, Helaba Research

**Employment indicator pointing south again**

Sub-components of CFS Financial Center Index for banks


Sources: CFS, Helaba Research

Both indicators unanimously fell after having just advanced into expansionary territory at the beginning of 2014. In the IHK survey, for instance, more banks, almost a quarter, once again stated that they were planning to reduce their staff. More than half indicated that they expect to maintain a stable level of domestic personnel and a further fifth of surveyed credit institutions wants to hire new staff. The CFS indicator displayed a more marked fall. There was a renewed significant deterioration in banks' most recent assessment of both their staffing situation at the end of 2014 as well as their personnel expectations for the beginning of 2015.

A number of factors will be reflected in Frankfurt's banking employment over the years to come. First of all, the consolidation-driven adjustment processes, against a backdrop of subdued earnings prospects, should continue at a familiarly modest pace. At the same time, banks will have a certain requirement for staff in order to expand selected business units with potential for growth in the scope of rather stable economic activity in Germany or to fulfil the large number of new regulatory and supervisory requirements. The Frankfurt-based bodies within the structure of the European Single Supervisory Mechanism are also likely to readjust their staffing levels in order to be able to manage their extensive range of tasks.

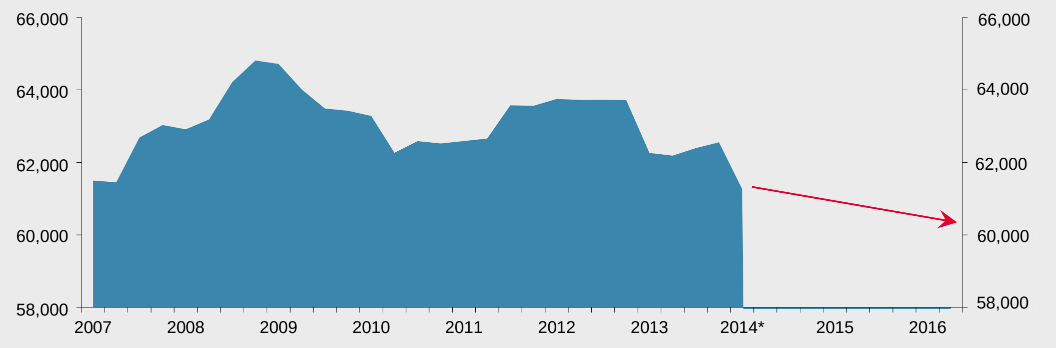
Thinning out of branch network to have limited effect on Frankfurt

Nevertheless, the structural change in the banking sector is set to continue and the nationwide branch networks will be increasingly pruned back in favour of online banking services. The trend towards a dwindling number of branches, which was already evident at the beginning of the 1990s, will gain further traction as a result of digitalisation. Despite this, it is not possible to imagine a retail banking sector without branches with their personal advisory services. However, branches will probably take on a new guise in the future, such as in the form of a lounge. The closing of branches, however, will have a weaker effect on the German financial centre than in other parts of the country. The reason for this is that many banks have their headquarters in Frankfurt and the share of employees in branches, as a proportion of the total number of jobs, is relatively low.

On top of that, Frankfurt's banking centre has recently been able to significantly enhance its international attractiveness by becoming the location of the European banking supervision and the first renminbi trading centre in the euro area. This boost to its image will strengthen Frankfurt's position in competition with other international financial centres and will increase its appeal for both domestic and international players. Germany's financial centre is increasingly becoming a "place to be" on the international financial stage.[3]

### Forecast: 2016 set to end with 60,000 banking employees in Frankfurt

Number of banking employees in the city of Frankfurt




* One-off effect at the beginning of 2014;
Sources: Deutsche Bundesbank, Helaba Research

2 % fall in local staff until end of 2016

All things considered, we anticipate that the next few years will see a further modest reduction in staffing levels in the German financial centre. With marginally falling employment in banks and a further increase in the number of jobs in other sectors, the tendency will be for the share of banking employment as a proportion of the total labour market in Frankfurt to decline further – from a current share of almost 12 % towards a level of 11 %. After all, Frankfurt does not live from its financial sector alone. For the end of 2016, we expect to see a level of slightly more than 60,000 banking employees in Frankfurt. On the basis of the most recent figures (Q1 2014: almost 61,300) this would mean a further 2 % fall. In contrast, we expect that a dwindling branch network will lead to more extensive job losses in Germany as a whole in the medium term.

[3] Helaba Research, „Frankfurt: Hub of finance and supervision", March 2014.

# Helaba publications: Financial Centre of Frankfurt

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