German Banking Models

by Steve Seuser

Germany's economy is powered in part by a centuries-long tradition of different banking models, and an estimated 65-70% of Germany's banking sector are not traditional private banks as we know them in the US. These German banking models include public, hybrid, or cooperative entities.

Förderbanken Development Banks are 17 state development banks and two national public banks similar to Bank of North Dakota. As bankers' banks, they do not initiate loans directly with customers. Customers apply for loans through commercial banks, savings banks, or other types of local banks, which may forward the application on to these state development banks for partial funding of the loan. Each development bank establishes its own lending priorities, which include affordable housing; small to medium-sized businesses; agriculture; sustainable development; renewable energy; public infrastructure; transportation; information technology, and other public purposes.

One of the national development banks, KfW was established after WWII by the US/German Marshall Plan to rebuild the German economy. It now focuses on small and medium-sized businesses, infrastructure, housing, renewable energy, and international development. The other national bank, Rentenbank, focuses on agriculture and rural development. Both national banks can participate in loans through the 17 state development banks.

Sparkasse Community Savings Banks serve consumers and small businesses. They operate at the community or regional level and are mainly public entities without private shareholders. These are the front-line banks for many German households and small businesses, providing secure and affordable banking services. Locally operated, they are members of regional associations of savings banks, and networked with state Landesbanken.

The German savings bank model was first established in Hamburg in 1778 and has been adopted in 80 countries worldwide, including the US, where they were known as savings and loans (S&Ls). While federal deregulation of S&Ls in the United States during 1980s led to significant fraud, the S&L crisis, a federal bailout, and the takeover of the sector by private banks; in Germany, only limited financial challenges have occurred, and savings banks remain key to the local economy.

Landesbanken State Banks are mostly public banks serving states within Germany. These state banks act to build the state's economy, serve as business banks, and perform other services for savings banks, other banks, and government entities. Due to bad loans beginning in the 1970s, state banks have faced increasing public criticism and regulation. The 2007-08 financial crisis further exacerbated the situation, forcing one state bank to close. Other states already have or are considering privatizing their state banks.

Raiffeisenbank/Volksbank Co-op Banks, serving consumers and small businesses, are named for their founder, 1800s social reformer Friedrich Wilhelm Raiffeisen. He started them to provide capital to farmers and other agricultural businesses under the slogan, "One for all and all for one." Over time, the Raiffeisenbank/ Volksbank, and their affiliates have evolved to serve consumers and small businesses throughout Germany and in several other European countries. Similar to credit unions in the US, these German entities are structured as private Co-ops owned by their 17 million members operating in networks similar to savings banks. Co-op affiliates provide a full spectrum of financial services to members.

Public, hybrid, and co-op banks in Germany serve as important economic building blocks that provide needed capital and services to consumers, businesses, government agencies, and the broader economy. German banks have shown they are not immune to mistakes and failure. A good regulatory framework, accountable leadership, and public oversight are important elements to success for states and communities across the US considering public banking options.

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graphic: Raiffeisenbank