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The Global Hausbank

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Introduction

The eventful history of Deutsche Bank, which celebrates its 150th anniversary in 2020, reflects both the dramatic international political and economic events through which it operated as well as the volatile path of the German domestic environment. The bank survived and adapted through two eras of globalisation (in the 19th century and the late 20th century), the rise of economic nationalism and dictatorship in the interwar period, two world wars and through many booms and busts in global economic relations. The bank was also deeply affected by the evolution of the German economy and Germany's place in Europe, while also in turn influencing these developments.

The bank originated in Berlin in 1870, during the boom that followed the foundation of the German Empire, and grew quickly in the first phase of globalisation before the First World War. It was in this period that it established its role as an adviser for the innovative and successful German industrial and commercial base and followed its customers into a strategy of internationalisation. In Germany, the model of bank-dependent finance rather than market-led finance created opportunities for Deutsche Bank to be closely embedded in the industrial success of the German economy. In the heyday of globalisation in the late 19th century Deutsche Bank assumed its role as global Hausbank for German industry and commerce. The term 'Hausbank' infers a close and primary, if not exclusive, relationship between a company or enterprise and its bank across a range of services. In Germany's case this closeness was enhanced by banks holding shares in industry and cross-directorships.

Deutsche Bank's original international business model was largely destroyed by the Great War and the thirty years of turmoil and violence that followed. The implications for the bank of Germany's defeat in 1918 quickly became clear: the loss of a large part of its international operations, international branches and investments, but also the erosion in the domestic capital market business. The rise of National Socialism and the renewal of aggression between Germany and its European neighbours ensured that these losses were not merely a brief interruption related to the war and its immediate aftermath. After short-term efforts to regain international business in the interwar period, the bank remained largely restricted to the German territory under Hitler's National Socialist dictatorship and during the Second World War. The global Hausbank of the years before 1914 was transformed into a German universal bank that was primarily reliant on the domestic market. Politics played an ever greater role in the bank's business. During the Nazi period politics became the single determining factor of the bank's strategy. As the most prominent financial institution in Germany, Deutsche Bank was collaborating with the regime, being part of the National Socialist war economy and involved in crimes committed by the Nazis. Even after the end of the Second World War, it was not possible to return to the older traditions from the period before 1914. The political and economic division of Germany by the occupying powers cut the bank off from its origins in Berlin. In the western sphere, the American occupying power sought to break up the corporate structures of the big banks, which were linked to the armaments and war policies of the Third Reich. The Americans also sought to increase competition in the banking sector. A plethora of smaller regional institutions emerged from the three Berlin big banks – Deutsche Bank, Dresdner Bank and Commerzbank. During the period of Germany's post-war economic recovery, these banks quickly gained importance, but at the same time efforts were directed towards the restoration of larger corporate structures, which was completed by the reunification of Deutsche Bank's successor institutions in 1957. Meanwhile, with Berlin isolated, Frankfurt emerged as the new West German banking hub.

In consequence, Deutsche Bank's post-1957 business model was a different one than before 1914. As the bank no longer had an international infrastructure, its employees concentrated their expertise on domestic business and industrial loans. The continued weakness of the German capital market in the 1950s made it impossible to finance industry through capital market products, which had worked excellently in the pre-1914 German Empire. These restrictions did not, however, seem as important when measured against the stabilisation and expansion of good relations with major industrial clients. Close Hausbank relationships linked corporate customers' foreign trade and investment needs. In addition, various factors contributed to the establishment of permanent equity holdings in industrial firms by the financial services sector and cross-shareholdings between banks and insurance companies. Deutsche Bank, alongside Dresdner Bank, Allianz and Munich Re, was undoubtedly among the most important players in what later became known as 'Deutschland AG' (or 'Germany Inc.') and remained as such until the 1990s.

These shifts in the bank's strategy caused by the upheavals of the first half of the century and the specific conditions of Germany's reconstruction were less deliberative decisions or even a strategic repositioning by the bank's top management, even if their actions were of great significance. At the core was entrepreneurial understanding of the market conditions, ultimately created by politics, that gradually narrowed the bank's scope for action after 1914. This was by no means unsuccessful, especially in the reconstruction after the Second World War, and in this respect the bank rightly saw itself at the top of the financial system of one of the economically most important countries in the world on the occasion of its 100th birthday in 1970. But the risks and disadvantages connected with the repeated changes of its profile became apparent with the opening of the world economy in the course of the second globalisation from the 1980s.

In view of the structural changes in global financial markets on the one hand, and the end of the industrial boom in the 1970s on the other, international markets steadily gained in importance. Initially, this was simply due to the sheer volume of money and capital flows (such as Euro- and petrodollars). With stagnating or only moderately growing profit opportunities in the traditional business of trade and industrial finance, and the restructuring of many large companies in the context of intensifying global competition, the importance of capital markets was greatly enhanced. Only gradually did it become clear that this renewed transition towards an open global economy, which bridged national characteristics, would make serious changes in the bank's business model necessary. At first, in Deutsche Bank and more generally in the European financial industry, there was a reluctance to expand actively internationally, partly because the war-related losses from foreign business were still firmly anchored in the minds of many bankers. Only gradually did the bank adapt to global financial markets by taking its own strategic decisions and setting its own course – measures that did not entail a restoration of the situation before 1914, but were intended to build on the original model of being a leading internationally active bank, with a prominent profile developed through an extensive network of correspondent banks, representative offices, branches and subsidiaries.

But this was all easier said than done. Although the bank had great earning power (not least because of its strong position in 'Deutschland AG') and enormous reserves (including substantial industrial holdings), the loss of international competence after 1914 and the specialisations of the organisational structure and personnel profile, which were typical of reconstruction, were not particularly good preconditions for a powerful return to the competitive international arena. A small number of efficient and highly competitive finance companies dominated global financial markets, particularly American investment banks, which had grown after the Glass Steagall Act of 1933 separated out retail banking from investment banking in the US. These banks particularly thrived during the rapid growth of securities and equity trading from the 1980s onward. Barriers to entry were high for a latecomer, especially for a bank that had been doing most of its business in this market from the sidelines. Deutsche Bank now faced establishing its position in international financial centres where its presence was relatively minor. It was soon clear that the existing organisational and personnel resources would not support the bank's international expansion and its return to the world's major financial markets. This was especially true for the necessary growth of its international capital markets business, where the global standard was now modelled on American investment banking. In consequence, from the end of the 1980s the bank stepped up its international expansion through acquisition (partly by using the proceeds from the gradual dissolution of 'Deutschland AG'), first in London and later New York, and finally worldwide. In this way it was able to become a leading European player in investment banking, especially in securities and derivatives business, but also in foreign exchange trading. Despite initial difficulties, this strategy seemed so successful in the boom of the financial markets before the 2007–08 crisis that it dramatically changed the shape and nature of the entire bank.

As before 1914, after the acquisition of Morgan Grenfell in 1989, London was an important hub for the bank and the centre for the new investment banking operations. New York, where the bank had been represented until the Great War through numerous co-operative agreements and friendly relations with other banks, also became – after the acquisition of Bankers Trust in 1999 – a central location for the now truly global financial conglomerate, catapulting Deutsche Bank into the league of the world's leading global banks. The boom in financial markets after the turn of the millennium was both a curse and a blessing: a blessing because it created an extremely favourable environment for global expansion; a curse because it intensified competition among leading institutions to such an extent that increasingly risky strategies were pursued in the search for higher returns and greater scale, which ultimately contributed significantly to bloated balance sheets and opaque risk structures. At the same time, the role of investment bankers, who joined the bank in their thousands from the 1990s, became decisive for the bank's strategy. In a highly competitive environment, the true asset of the bank was its people and their ability to compete, to innovate and to win over customers. In investment banking, this required a change in the norms of incentives and compensation that increased the focus on the short term and contributed to the overheating of the business – a shift in strategy whose consequences could not be controlled from the top of the bank in Frankfurt. As long as the results for the shareholder were positive, this seemed acceptable, indeed desirable. But the rapid expansion in the bank's scale and scope created managerial challenges and operational risks that quickly became apparent when the growth in underlying markets abruptly ended.

The bursting of the real estate bubble in the United States in 2007–08 sent shock waves through the global financial system because of the complex web of securitisation that the global investment banks had spun since the 1990s. At first, Deutsche Bank itself appeared to have got off fairly lightly compared to other major banks. However, the crisis revealed the ways in which the bank had extended itself beyond the competence of its governance and operational systems. In the ten years after the crisis, the bank struggled to reinvent itself and return to consistent profit, eventually retreating from global equity trading and reorienting its strategy to the global Hausbank model, with a renewed emphasis on corporate and transaction banking and wealth management.

History shows, of course, that this was not the first time the bank had faced such challenges. Even in the extensive reports by Berlin financial journalists on the bank's 25th anniversary in 1895, it was clear that by no means all the bank's projects went smoothly. But the bank's management repeatedly found ways to learn from its mistakes and had the resources for quite painful write-downs. The banking crisis at the beginning of the 1930s, for example, hit the bank hard. In contrast to other banks, Deutsche Bank was able to recover from the crisis relatively quickly and had to make only limited use of state aid. During the Nazi Third Reich this proved to be an advantage and gave the bank a higher degree of autonomy than was the case with Dresdner Bank, for example. In May 1945, however, it was on the brink of ruin, a fate shared with the entire German economy. But the bank succeeded in finding its way back to the top of the German financial system by mobilising its remaining resources, and taking advantage of the favourable circumstances of the rapid post-war economic recovery. This gave the bank a reputation for resilience that was to be tested in the next century.

The history of the bank was and is anything but a simple success story, and it has not been portrayed as such in earlier anniversary volumes, even though each time period has left its mark on these depictions. The milestone birthdays in 1920 and 1945 were not times for celebration. The commemorative *festschrift* for the 100th birthday in 1970, written by the financial journalist and archivist of the bank, Fritz Seidenzahl,[1] took a critical but positive look at the bank's early history, the First World War and the

1 Fritz Seidenzahl, *100 Jahre Deutsche Bank 1870–1970*, Frankfurt am Main 1970.

early 1920s, which was borne out by the self-confidence of the bank's reconstruction success. On the other hand, the description of the Great Depression and the banking crisis failed to stand up to critical scrutiny, as is also the case for the cursory treatment of the role of the bank during the Nazi dictatorship and the Second World War. This was already of great concern to the general public back then, when attack and defence were in balance for a while.[2] Eventually, however, it became increasingly clear that such deliberate 'silence' could not be justified. Not least to make up for these obvious omissions, a much-acclaimed scholarly account followed for the 125th anniversary of the bank in 1995. This substantial collection of essays not only met the expectations of the German and American public through Harold James' critical reappraisal of its history in the Third Reich, but also set a milestone in German business history.[3] Acting as a role model, the leading company of 'Deutschland AG' no longer dodged a reappraisal of its history during the period of National Socialism nor played it down, but instead gave independent historians the opportunity to examine precisely this problematic period of the bank's history and to present the results of their work to a broad public.

Now, on the occasion of the bank's 150th anniversary, the circumstances have once again changed and other, quite new questions about the history of the bank have become urgent and are taken up with this account. On the initiative of the Historical Institute of Deutsche Bank, the concept underlying this book was developed as early as 2015 together with a team of authors consisting of economic, financial and business historians. What is new is not only that the international dimension of Deutsche Bank's activities is given a prominent role from the very beginning. Another new dimension is the ability to address the bank's history over the past 25 years in the context of its longer term historical evolution. At the same time, it is possible to identify continuities and discontinuities which are discernible right up to the present. This inevitably shifts the overall perspective. The turmoil in the decade after 2008 highlights turning points in the history of the bank that were less obvious at the beginning of the 1990s and even less so at the end of the 1960s. Today it is clear that the period between the beginning of the First World War through the end of the Cold War was a period of politically determined market structures and that politics played a decisive role, in many important respects, in defining the bank's scope for action. This was not only because of the destruction of the international division of labour and open capital markets between the wars, but also due to the creation of the European economic area and its increasingly intensive institutional regulation since the 1950s. On the other hand, in the periods before 1914 and since 1989 the prominence of political factors was different in essential respects. Politics certainly played a role in the period of the German Empire and is by no means insignificant for business development today – even in the present, with the instability of the Eurozone and the emergence of a kind of Neo-Mercantilism in the United States, new political fractures are looming, whose medium-term significance are certainly hard to envisage. For the bank, however, the politically determined turning points between 1914 and 1989 had even more far-reaching implications. In this period, the bank's

2 Martin Walser, Ist die Deutsche Bank naiv?, *Der Spiegel* 35/1970; Wilhelm Treue, Eine (deutsche) Bank, zwei Geschichten, *Die Zeit* 33/1970.
3 Lothar Gall *et al.*: *The Deutsche Bank 1870–1995*, London 1995.

business model had to follow political requirements that did not exist before 1914 and are hardly tangible after 1989. The bank was able to adapt to the change in underlying conditions, including the emergence of freer global economic structures after 1945 (at least in the western hemisphere). It also succeeded in continuing its operations successfully in West Germany. However, considering the foundation and the development of the first decades, this era was distinct from the fundamental identity of the company, which always understood itself as a global actor and consequently acted as such.

In some respects, Deutsche Bank returned to its historical roots after 1989, but under completely different conditions. These altered conditions did not necessarily mean greater risks than in the period before 1914. The volume, tempo and technological capabilities were certainly on a greater scale than during the first era of globalisation, but the risk of losses on the American or Asian market was always only too well known to the bank's directors before the First World War. Yet before 1914, while business was global, the bank itself and its milieu, as well as that of British, French and American institutions, continued to be nationally inflected, despite the fact that bankers of the pre-war era were already a kind of cosmopolitan elite. While today the national milieus in global finance have retreated somewhat in favour of a more homogenous global investment business culture, the times before 1914 and after 1989 are nevertheless more similar than the short 20th century in between these dates, in which the political implications of the two world wars and the Cold War that ensued created 'camps' which were only partially capable of cooperation among themselves.

This tripartite division of the period of one and a half centuries is the starting point for the study. Throughout, the bank is understood as a financial actor that was unable to escape fully from the changing external economic and political market conditions. In some cases, the bank attempted to influence market developments, making use of its multiple political and economic relationships. However, the bank's power and influence should not be overestimated. In much of the existing literature, the bank has been characterised almost as a spider at the centre of a web, shaping economic and political conditions. But this clearly misrepresents the character of the institution that had to respond to difficult and changing market conditions. The bank usually followed the markets, not the other way around. As much as there was lobbying on the one hand, as much as politicians were keen to use the bank as an ally and even as an aid to its foreign policy ambitions, the bank was not eager for political significance unless this fit in with its business needs. Individual bank directors may have had political convictions and stood up for them; the bank's day to day operations were rather indifferent to this, and the directors, who were always bound by collective decisions anyway, knew that the bottom line held the last word.

Accordingly, each major chronological section first examines the question of how the bank understood and defined its scope for action and developed its strategy under the prevailing market conditions and competitive context. Moreover, the bank's strategic orientation was closely linked to the evolution of the structure of the organisation and its personnel, which supported and enabled each other. We place particular emphasis on the importance of the bank's early internationalisation, which began in London and East Asia in the 1870s and soon also in Latin America, as well as its very early willingness to be present in Germany in important commercial centres outside Berlin. Strategy and organisation determined the ability to identify and exploit opportunities for action, both in deposit-taking and lending business, in its international presence and in national operations. This global ambition re-emerged in the 1980s partly as a defensive strategy to retain the bank's customers in Germany, but also to follow the huge short-term revenues available in the new global securities trading environment. This in turn transformed the structure, personnel and operations of the bank.

The division of the bank's history into three main phases was also a deciding factor in the choice of authors, as it was less a matter of setting out technical banking details than of tracing historical lines; of examining the processes to handle and manage changes, over which the bank itself often had limited influence. The focus is on aspects of business and economic history in the parts written by Werner Plumpe and Alexander Nützenadel, while Catherine R. Schenk's exploration of the bank's structural change in the context of renewed globalisation reveals more recent perspectives on financial history. The differences between the sections are therefore easy to notice, but there are also continuities as each section addresses questions of organisational and personnel development, the image and public reputation of the bank. Although the authors wrote their contributions on behalf of the bank, they were scientifically independent and were able to explore the themes that they chose without interference. Importantly, the views of the authors do not necessarily reflect the views of the bank's management. To support the project, the bank made great efforts to make all the documents requested available as far as possible, thus resulting, for the first time, in the history of a bank based on extensive archival records almost up until the present. Inevitably, the legal repercussions of more recent episodes have constrained the details that can be disclosed, but this does not affect the overall arc of the narrative. We benefited hugely from the work and advice of Martin L. Müller, director of the Historical Institute of Deutsche Bank. Matthias Kemmerer provided invaluable day-to-day support facilitating the work with the sources, frequently offering constructive criticism and useful suggestions. Moreover, the staff of the bank's Historical Institute were decisively involved in the selection of images, without which the book would have much less lustre and vividness. The archive of the Historical Institute of Deutsche Bank is a crucial resource for understanding the development of the German economic and financial system as well as providing scholars with the records of a key player in the development of the global economic system. Without it, our collective understanding of the course of world history would clearly be weakened in many ways.

In addition to the extensive written sources, leading former and active managers of the bank were available to Catherine R. Schenk as contemporary witnesses for extensive discussions.

At a workshop at the University of Frankfurt am Main in July 2018, the authors were able to present their concept to a larger group of experts and discuss it critically. Their suggestions have been incorporated into the manuscripts. All participants of this meeting deserve our thanks.[4]

4 The participants present in addition to the three authors were Ralf Ahrens, Boris Barth, Harold James, Jan Pieter Krahnen, Mary O'Sullivan, Morten Reitmayer, Jörg Rocholl, Friederike Sattler, Reinhard H. Schmidt and Cornelius Torp.

Ian Hallsworth from the Bloomsbury Publishing group was very committed to this project, as was editor Allie Collins and copy-editor Richard Collins, who reviewed the manuscripts and gave important hints on how to improve them. Patricia C. Sutcliffe, Sally Hudson Dill and Andrew Evans did an admirable job in translating the sections by Werner Plumpe and Alexander Nützenadel from the German. It goes without saying, of course, that the authors alone are responsible for any remaining deficiencies.

Werner Plumpe
Alexander Nützenadel
Catherine R. Schenk