



# PRESS RELEASE

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## **New Anglo-German Foundation Report**

### **"The British Banking System: A good role model for Germany?"**

*There has been much discussion in recent years of the need to reform the German banking system, which is characterised as overbanked, inefficient (relatively high cost) and unprofitable. The British banking system, in contrast, has an international reputation for being profitable and efficient. But is this a blinkered view? Are there elements of the German banking system worth conserving, and does the UK banking system provide a suitable role model for reform?*

A new report "**The British Banking System: A good role model for Germany?**" – just published by the Anglo-German Foundation ([www.agf.org.uk](http://www.agf.org.uk)) – suggests that there are serious issues in Britain with regard to access to payments services and finance, the provision of small business bank account services and widespread branch closures.

Furthermore, the report highlights the high numbers of over-indebted households in Britain compared to Germany. The widespread use of credit cards in Britain could be responsible for this. Aggressive marketing of these cards as well as excessively high penalty charges to credit card users who pay late, or are unable to clear their balances, contribute to the problem of over-indebtedness. The punitive charging in Britain is indicative of much more widespread cross-subsidisation in the provision of current accounts – high-balance, low-volume users generally cross-subsidise low-balance high-volume users due to low deposit interest payments and low charges (for those who stay within authorised credit limits, with punitive charges for those who do not, or cannot).

The relatively high profitability of British banks in recent years may therefore owe much to exploitation of what the Competition Commission called their 'complex monopoly' power. In contrast, the lower profitability of German banks is associated with a broader supply of financial services to small enterprises and low-income households. However, the Sparkassen (municipal savings banks) and co-operative banks, which are the most active banks in these market segments, have had an above average profitability in Germany. These findings should be borne in mind by advocates of increased concentration to try to shift the German system towards the British model.

In contrast, public sector and co-operative savings banks are no longer a significant force in Britain, and indeed the government has been encouraging the development of Community Development Financial Institutions (CDFIs) and credit unions to fill the gap. Advocates of privatisation of the German public savings bank should also bear this in mind.

## **The British Banking System: A good role model for Germany?**

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