

# Analysis of Banking Structure of Deutsche Bank

Report: Analysis of Banking Structure of Deutsche Bank

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## Research Question:

*Identify the current form of banking structure of Deutsche Bank. Discuss and analyse the positive and negative aspects.*

The banking structure of various global as well as national/local banks are formed to provide expert and dynamic financial services to communities at large. The banking structures formulations are primarily based on the key parameters such as debt and equity, trading, sales, research, mergers and acquisitions, product risk management, transactions etc. However, the global financial crisis has impacted banks in various ways including the increasing its regulatory burdens. Currently, banks face the pressure of reducing risk and complexity of its banking structure to enrich resolvability and profitability, insisting the stakeholders/banks to reconsider their operational structures (Shooter et. al. 2015). Many banks since the onset of the global financial crisis have reduced their structure of global footprint. Nonetheless, increased pressure to produce revenues pushes many banks to maintain their commitment to offer varied services and operations across numerous diverse markets making them into multinational companies (MNC). Thus, it becomes imperative to overcome the operational and regulatory obstacles to create banks that have structures and operational models that are robust and complaisant.

One of these financial MNC, the Deutsche Bank (DB) which is the focus of this research, has 140 years of experience in international banking. Since the company's conception it visualised itself as an international bank which is evident from its purpose statement;

*"To transact banking business of all kinds, in particular to promote and facilitate trade relations between German, other European countries, and overseas markets"*

(Deutsche Bank, 2009).

To fulfil this objective, Deutsche Bank needs to possess a strategy and strong banking structure. According to Johnson and Scholes (2002, p. 10) a strong strategy is capable

of providing direction and scope to the organisation over a period of time by achieving an advantage for the organisation through adequately using its resources within a changing market environment and fulfil stakeholder expectations (as cited in Dietrich 2008). The report discusses Deutsche Bank's current banking structure in order to analyse and assess the negative and positive aspects obtained by the company through the specific structure's implementation.

The Deutsche Bank, a German global bank with the headquarters in Frankfurt, competes within the banking industry specifically as a global investment bank, commonly termed as a modern universal bank (Jahn and Kick n.d.) providing its clients with services ranging from account-keeping, cash and securities, investment advisory to asset management (DB, 2009). The bank has a large number of employees and operates all over the world, typically in Europe, America, and Pacific Asia as well in the emerging markets. Their banking structure is based upon serving the business and private clients, institutional as well as corporate clients through provision of service such as trading, sales, equity, mergers and acquisitions, risk-management, banking transactions, wealth-management, retail banking, funding/investments banking and corporate financing.

Although, the Deutsche Bank' structure is known to earn a majority of its profits through investment banking and foreign exchange, but has been attempting to build on less risky business such as lending to consumers (Ewing 2011). However, the DB has been facing a slump in trading revenue since 2011 with net income declining from 4.326 million euros in 2011 to 1.691 million euros in 2014 (DB, 2014). In 2011, the bank earned greater in their second quarter from noninvestment banking businesses that lifted the net profit by 6 per cent to 1.2 billion euros but still was considered short of analysts' predictions (Ewing 2011).

In order to improve profitability of the company and optimize its operational banking structure, the Deutsche Bank had announced the new leadership in the form of co-CEOs Anshu Jain, Indian born head of investment bank, and Jurgen Fitschen, native German head of the German bank unit. The bank is dominated by German values which gave rise to choosing a dual CEO model as some feared the bank would neglect its German roots and expand risk taking activities (Reuters 2011). However, both co-CEOs were ousted

on June 6<sup>th</sup> as the company continued to lose profitability since their appointment and replaced with John Cryan who will act as co-CEO with Jurgen Fitschen until Fitschen's departure from the company on May 19, 2016 making Cryan sole CEO (Davies, 2015).

Under Cryan's leadership the bank is restructuring to cope with regulatory changes and litigation costs by splitting its investment bank into corporate and investment banking (CIB) and Global markets focused on sales and trading (Davies 2015). An immediate impact of the new appointment and the proposed structure changes has led to increase of shares by 2.5 per cent to 26.61 euros at the beginning of trading on Monday Oct. 12, 2015. This has been the highest level of shares in the market since August 2015 (Ewing 2011).

Using the new structure devised by Cryan, Deutsche Bank will benefit from increased operational efficiency, cost savings, and compliance benefits. Furthermore, using the re-structured model, Deutsche Bank might be able to operate and expand in an improved way where regulatory boundaries are less vivid. According to Jahn and Kick (n.d.), regulatory demands have increased and will continue to do so with regulators becoming more assertive and less tolerant of overly complex organisations such as Deutsche Bank. The new structure of the bank is designed to be simplified with bank focusing more on its four new divisions on four sets of clients: large businesses, institutional investors, asset managers, and individual clients (Turner and Strasburg 2011).

Furthermore, on the restructuring, Deutsche will setup a new independent digital bank that will attempt to ward off new digital challenges that are faced by Deutsche suite of businesses (Shooter et.al. 2015). In order to make shrink the bank's global foot print to a more regional one, DB will be close all its Russian operations except for transaction banking services. DB is attempting to find the right combination of near-shoring and off-shoring which are critical to the bank's expansion plans. This is critical as DB has been facing investigations from regulators around the world for alleged wrongdoing including, breaking US sanctions against Iran, rigging the Libor interest rate, and foreign exchange markets to money laundering in Russia (Shotter et.al. 2015).

However, there is a drawback to decreasing the global footprint of a bank such as the expected cost savings are lower than expected (Barth et.al. 1997). Moreover, it takes longer than usually anticipated to deliver the savings achieved from closing off-shore operations and developing a new regionally robust process. Many banks have attempted lowering costs from closing offshore operations but the price of doing so comes extremely high. Emerging markets that have not experienced wage inflation, and are able to provide for an increased labour profit from purchase and sale of asset (Dietrich 2008). Many global customers and employees enjoy quality of international banks such as Deutsche Bank that are not offered from their regional banks. One of the drawbacks from Deutsche's restructuring will expected job losses that is estimated to reach by the thousands (Shotter et.al. 2015).

Barth et. al. (1997) and Dietrich (2008) asserts that using microeconomic theory, restructuring results in an increase of allocated efficiency by forcing prices to converge with marginal costs. Using newer and more improved production methods it is possible that banks such as Deutsche will be able to increase its longer productivity. Keeping in mind the banking system's macroeconomic importance, it is critical that the bank is structured and organised in such a way to foster innovation that results in productivity, growth and profitability to the business at large

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