

Comments on the “Contribution of Savings Banks to Small and Medium Enterprise Finance”

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1. Diversity of the financial business

In Japan, to date small and medium enterprises (SMEs) have tended to be the recipients of subcontracting from large corporations, and have relied on their position as socially vulnerable members of society to receive subsidies. However, moving forward it will be necessary for SMEs to capitalize on their individual strengths and operate independently in global markets. A degree of reorganization is required in step with trends in the economy and society. So it can be said that the mission of the financial sector is to provide support for such strategy and reorganization. From this perspective the following points in the report were of particular interest.

German savings banks provide consulting services on financial and other matters to enable SMEs to engage in negotiations with business partners in other countries directly, implement trade and procure capital from financial markets. In addition, German savings banks provide services similar to investment banks to SMEs, such as corporate restructuring, including business succession. Along with the maturing of the economy it is predicted that in the family businesses sector the demand for smooth business succession will expand. Even if that demand is small, it is an important part of the social mission of savings banks, and can be expected to form a source of income for each bank.

These merchant banking and investment banking have some differences from the traditional commercial banking. In applying such concept of savings banks to Japan, where the separate banking system in stead of the universal banking is adopted, it will be important to engage in collaborative strategy, with banks receiving support from group companies, or using group subsidiary companies.

2. Relationship between group organizations/alliances

Viewed as a sector, German savings bank groups are huge. However, in contrast to France’s regional financial institutions (Credit Agricole and Caisse d’Epagne) which almost function collectively as a single bank, the German savings banks and also German cooperative banks are strongly independent. This characteristic is very similar to the cooperative credit institutions in Japan namely Shinkin Banks and Credit Cooperatives. It is unfortunate that some German Landesbanks have found themselves victims of the sub-prime loan problem through rapid internationalization following

privatization, but that the problem has been limited to a number of regional banks is truly thanks to the decentralized nature of the system.

However, the system in Germany is by no means identical to that in Japan. In terms of the intra-bank rating system and HR development and training, in Germany there is a professional school for higher education affiliated to the German Savings Bank Association (DSGV) and to savings banks, and uniformity in this sector seems to be stronger than in Japan. For this reason, with regard to the Basel II standards, the use of intra-bank rating attempts to support SME financing and this leads regional financial institutions to take an international perspective, the so-called “glocal” (global-local) perspective.

3. Relationship between the savings bank system and regional finance

It is probably fair to say that savings banks are ultimately contributing to regional economies entirely through SME financing. This is because SMEs are the engine of regional economies and the largest employers in regional areas. However, looking purely at their business, people in Asia would probably not understand the significance of the existence of the two sectors—credit associations and savings banks—in Germany.

German savings banks have, in contrast to credit unions, adopted an area system similar to that of Japanese Shinkin Banks, and in place of the member system, the system that exists is characterized by the local government that established the bank participating in governance through the dispatch of a member to the governing (supervisory) board of the bank. Based on this structure, therefore, savings banks in Germany can be seen to have a more direct role in the region and also possess shared interests.

In addition, due to differences in basic legislation concerning the establishing of a juridical person, savings banks are unable to merge with credit unions or commercial banks. For this reason there are always these three types of financial institution in any given region in Germany. However, as the basic legislation for granting a license as a financial institution is the same for any category, in contrast to the division of business and code like in Japan, these three types of financial institutions are all competing in the same field. This set-up enables the elimination of intra-regional monopolies and can be said to increase management and operating efficiency.